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BT Group plc Annual Report & Form 20-F 2009

FINANCIAL STATEMENTS

The group's consolidated financial statements have been prepared in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and as issued by the International Accounting Standards Board (IASB).

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STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the group's financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as issued by the IASB and IFRS as adopted by the European Union (EU), and for preparing the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

The directors are responsible for preparing financial statements for each financial year which give a true and fair view, in accordance with IFRS as adopted by the EU and issued by the IASB, of the state of affairs of the group and of the profit or loss of the group and a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP), of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether the consolidated financial statements comply with IFRS as adopted by the EU and issued by the IASB, and with regard to the parent company financial statements whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the consolidated and parent company financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and the group and to enable them to ensure that the group financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation and the parent company financial statements comply with the Companies Act 1985. They are also responsible for the preparation of the Report on directors' remuneration, safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors confirm, to the best of their knowledge:

- that the consolidated financial statements, which have been prepared in accordance with IFRS as adopted by the EU and issued by the IASB, give a true and fair view of the assets, liabilities, financial position and profit or loss of the group; and
- that the Report of the Directors on pages 49 to 74 includes a fair review of the information required by Rules 4.1.8-4.1.11 of the Disclosure and Transparency Rules of the United Kingdom Financial Services Authority.

The names and functions of all of the directors are set out on pages 50 to 51.

REPORT OF THE INDEPENDENT AUDITORS – CONSOLIDATED FINANCIAL STATEMENTS

United Kingdom opinion

Independent auditors' report to the members of BT Group plc (the 'company')

We have audited the consolidated financial statements of BT Group plc for the year ended 31 March 2009 which comprise the Group income statement, the Group balance sheet, the Group cash flow statement, the Group statement of recognised income and expense, the Accounting policies and the related notes. These consolidated financial statements are set out on pages 79 to 135 and 141. These consolidated financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of BT Group plc for the year ended 31 March 2009 and on the information in the Remuneration review. This separate report is set out on page 137.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the consolidated financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of directors' responsibilities.

Our responsibility is to audit the consolidated financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the consolidated financial statements give a true and fair view and whether the consolidated financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Report of the Directors is consistent with the consolidated financial statements.

In addition we report to you, if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the companys' compliance with the nine provisions of the Combined Code (2006) specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and Form 20-F and consider whether it is consistent with the audited consolidated financial statements.

The other information comprises all information set out in the contents listing on page 1, except for the consolidated financial statements, the Remuneration review and parent company financial statements of BT Group plc. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the consolidated financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the consolidated financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements.

Opinion

In our opinion:

- the consolidated financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 March 2009 and of its loss and cash flows for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Report of the Directors is consistent with the consolidated financial statements.

Separate opinion in relation to IFRSs

As explained in the accounting policies, the group in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board.

In our opinion the consolidated financial statements give a true and fair view, in accordance with IFRSs, of the state of the group's affairs as at 31 March 2009 and of its loss and cash flows for the year then ended.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London, United Kingdom
13 May 2009

United States opinion

Report of Independent Registered Public Accounting Firm to the Board of Directors and Shareholders of BT Group plc (the 'company')

In our opinion, the accompanying Group income statements, Group balance sheets, Group cash flow statements and Group statements of recognised income and expense present fairly, in all material respects, the financial position of BT Group plc and its subsidiaries at 31 March 2009, and 2008 and the results of their operations and cash flows for each of the three years in the period ended 31 March 2009, in conformity with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board. Also, in our opinion the company maintained, in all material respects, effective internal control over financial reporting as of 31 March 2009, based on criteria established in the Turnbull Guidance. The company's management are responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in management's evaluation of the effectiveness of internal control over financial reporting as set out in the first three paragraphs of Internal Control over financial reporting in the Report of the Directors, Business policies of the Form 20-F. Our responsibility is to express opinions on these financial statements and on the company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP
London, United Kingdom
13 May 2009

Accounting policies

(i) Basis of preparation of the financial statements

These consolidated financial statements have been prepared in accordance with applicable law and, as required by Article 4 of the IAS Regulation, in accordance with IFRS as issued by the IASB and IFRS as adopted by the EU. The financial statements have been prepared under the historical cost convention, modified for the revaluation of certain financial assets and liabilities at fair value.

The preparation of financial statements in conformity with IFRS requires the use of accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed below in 'Critical accounting estimates and key judgements'.

The group's income statement and segmental analysis separately identify trading results before significant one-off or unusual items (termed 'specific items'). This is consistent with the way that financial performance is measured by management and assists in providing a meaningful analysis of the trading results of the group. The directors believe that presentation of the group's results in this way is relevant to an understanding of the group's financial performance as specific items are significant one-off or unusual in nature and have little predictive value. Furthermore, the group considers a columnar presentation to be appropriate, as it improves the clarity of the presentation and is consistent with the way that financial performance is measured and reported to the Board of directors. Specific items may not be comparable to similarly titled measures used by other companies. Items which have been considered to be significant one-off or unusual in nature include disposals of businesses and investments, business restructuring, asset impairment charges and property rationalisation programmes. The directors intend to follow such a presentation on a consistent basis in the future. Specific items for the current and prior years are disclosed in note 4.

Accounting policies in respect of the parent company, BT Group plc, are set out on page 138. These are in accordance with UK GAAP.

In the 2008 financial year, the group revised its previous financial statements to exclude from 'Cash equivalents' certain investments and include them within 'Current available-for-sale assets', as management considered this to be a more appropriate maturity classification. The balance sheet revision as at 31 March 2007 reduced cash and cash equivalents by £267m and increased current asset investments by £267m. The impact in the cash flow statement for the year ended 31 March 2007 was an increase in 'Proceeds on disposal of current financial assets' and 'Purchase of current financial assets' by £4,838m and £4,581m, respectively, decreasing the net cash outflow from investing activities by £257m and decreasing cash and cash equivalents at the beginning and end of the year ended 31 March 2007 by £526m and £267m, respectively.

(ii) Basis of consolidation

The group financial statements consolidate the financial statements of BT Group plc ('the company') and its subsidiaries, and they incorporate its share of the results of joint ventures and associates using the equity method of accounting.

- A subsidiary is an entity that is controlled by another entity, known as the parent. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.
- A joint venture is an entity that is jointly controlled by two or more entities. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control.
- An associate is an entity over which another entity has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control over those policies.

The results of subsidiaries acquired or disposed of during the year are consolidated from and up to the date of change of control. Where necessary, adjustments are made to the financial statements of subsidiaries, associates and joint ventures to bring the accounting policies used in line with those used by the group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Investments in associates and joint ventures are initially recognised at cost. Subsequent to acquisition, the carrying value of the group's investment in associates and joint ventures includes the group's share of post acquisition reserves, less any impairment in the value of individual assets. The income statement reflects the group's share of the results of operations after tax of the associate or joint venture.

The group's principal operating subsidiaries and associates are detailed on page 141.

(iii) Revenue

Revenue represents the fair value of the consideration received or receivable for communication services and equipment sales, net of discounts and sales taxes. Revenue from the rendering of services and sale of equipment is recognised when it is probable that the economic benefits associated with a transaction will flow to the group and the amount of revenue and associated costs can be measured reliably. Where the group acts as agent in a transaction, it recognises revenue net of directly attributable costs.

Revenue arising from separable installation and connection services is recognised when it is earned, upon activation. Revenue from the rental of analogue and digital lines and private circuits is recognised evenly over the period to which the charges relate. Revenue from calls is recognised at the time the call is made over the group's network.

Subscription fees, consisting primarily of monthly charges for access to broadband and other internet access or voice services, are recognised as revenue as the service is provided. Revenue arising from the interconnection of voice and data traffic between other telecommunications operators is recognised at the time of transit across the group's network.

Revenue from the sale of peripheral and other equipment is recognised when all the significant risks and rewards of ownership are transferred to the buyer, which is normally the date the equipment is delivered and accepted by the customer.

Revenue from long-term contractual arrangements is recognised based on the percentage of completion method. The stage of completion is estimated using an appropriate measure according to the nature of the contract. For long-term services contracts, revenue is recognised on a straight line basis over the term of the contract. However, if the performance pattern is other than straight line, revenue is recognised as services are provided, usually on an output or consumption basis. For fixed price contracts, including contracts to design and build software solutions, revenue is recognised by reference to the stage of completion, as determined by the proportion of costs incurred relative to the estimated total contract costs, or other measures of completion such as contract milestone customer acceptance. In the case of time and materials contracts, revenue is recognised as the service is rendered.

Costs related to delivering services under long-term contractual arrangements are expensed as incurred. An element of costs incurred in the initial set up, transition or transformation phase of the contract are deferred and recorded within non current assets. These costs are then recognised in the income statement on a straight line basis over the remaining contractual term, unless the pattern of service delivery indicates a different profile is appropriate. These costs are directly attributable to specific contracts, relate to future activity, will generate future economic benefits and are assessed for recoverability on a regular basis.

The percentage of completion method relies on estimates of total expected contract revenues and costs, as well as reliable measurement of the progress made towards completion. Unless the financial outcome of a contract can be estimated with reasonable certainty, no attributable profit is recognised. In such circumstances, revenue is recognised equal to the costs incurred to date, to the extent that such revenue is expected to be recoverable. Recognised revenue and profits are subject to revisions during the contract if the assumptions regarding the overall contract outcome are changed. The cumulative impact of a revision in estimates is recorded in the period in which such revisions become likely and can be estimated. Where the actual and estimated costs to completion exceed the estimated revenue for a contract, the full contract life loss is recognised immediately.

Where a contractual arrangement consists of two or more separate elements that have value to a customer on a standalone basis, revenue is recognised for each element as if it were an individual contract. The total contract consideration is allocated between the separate elements on the basis of relative fair value and the appropriate revenue recognition criteria are applied to each element as described above.

(iv) Other operating income

Other operating income is income generated by the group that arises from activities outside of the provision of communication services and equipment sales. Items reported as other operating income include income from repayment works and scrap and cable recovery, income generated by our fleet operations, profits and losses on the disposal of business operations and property, plant and equipment, and income generated from the exploitation of our intellectual property.

(v) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys the right to use the asset.

Leases of property, plant and equipment where the group holds substantially all the risks and rewards of ownership are classified as finance leases.

Finance lease assets are capitalised at the commencement of the lease term at the lower of the present value of the minimum lease payments or the fair value of the leased asset. The obligations relating to finance leases, net of finance charges in respect of future periods, are recognised as liabilities. Leases are subsequently measured at amortised cost using the effective interest method. If a sale and leaseback transaction results in a finance lease, any excess of sale proceeds over the carrying amount is deferred and recognised in the income statement over the lease term.

Leases where a significant portion of the risks and rewards are held by the lessor are classified as operating leases. Rentals are charged to the income statement on a straight line basis over the period of the lease. If a sale and leaseback transaction results in an operating lease, any profit or loss is recognised in the income statement immediately, except where a proportion of the profit or loss is deferred or amortised because the sale price was not equal to fair value.

(vi) Foreign currencies

Items included in the financial statements of each of the group's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Sterling, the presentation currency of the group.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at period end exchange rates are recognised in the income statement in the line which most appropriately reflects the nature of the item or transaction. Where monetary items form part of the net investment in a foreign operation and are designated as hedges of a net investment or as cash flow hedges, such exchange differences are recognised in equity.

On consolidation, assets and liabilities of foreign undertakings are translated into Sterling at year end exchange rates. The results of foreign undertakings are translated into Sterling at average rates of exchange for the year (unless this average is not a reasonable approximation of the cumulative effects of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions). Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity, the translation reserve.

In the event of the disposal of an undertaking with assets and liabilities denominated in a foreign currency, the cumulative translation difference associated with the undertaking in the translation reserve is charged or credited to the gain or loss on disposal.

(vii) Business combinations

The purchase method of accounting is used for the acquisition of subsidiaries, in accordance with IFRS 3, 'Business Combinations'. On transition to IFRS, the group elected not to apply IFRS 3 retrospectively to acquisitions that occurred before 1 April 2004. Goodwill arising on the acquisition of subsidiaries is therefore treated as follows:

- Goodwill which arose after 1 April 2004: included in the balance sheet at original cost, less any provisions for impairment. This goodwill is not amortised.
- Goodwill which arose between 1 January 1998 and 1 April 2004: included in the balance sheet at original cost, less accumulated amortisation to the date of transition to IFRS and less any provisions for impairment. This goodwill is not amortised after the date of transition to IFRS.
- Goodwill which arose before 1 January 1998: written off directly to retained earnings.

On acquisition of a subsidiary, fair values are attributed to the identifiable net assets acquired. The excess of the cost of the acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the group's share of the identifiable net assets acquired, the difference is recognised directly in the income statement. On disposal of a subsidiary, the gain or loss on disposal includes the carrying amount of goodwill relating to the subsidiary sold. Goodwill previously written off to

retained earnings is not recycled to the income statement on disposal of the related subsidiary.

(viii) Intangible assets

Identifiable intangible assets are recognised when the group controls the asset, it is probable that future economic benefits attributable to the asset will flow to the group and the cost of the asset can be reliably measured. All intangible assets, other than goodwill and indefinite lived assets, are amortised over their useful economic life. The method of amortisation reflects the pattern in which the assets are expected to be consumed. If the pattern cannot be determined reliably, the straight line method is used.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the identifiable net assets (including intangible assets) of the acquired subsidiary. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

Telecommunication licences

Licence fees paid to governments, which permit telecommunication activities to be operated for defined periods, are initially recorded at cost and amortised from the time the network is available for use to the end of the licence period.

Brands, customer lists and customer relationships

Intangible assets acquired through business combinations are recorded at fair value at the date of acquisition. Assumptions are used in estimating the fair values of acquired intangible assets and include management's estimates of revenue and profits to be generated by the acquired businesses.

Computer software

Computer software comprises computer software purchased from third parties, and also the cost of internally developed software. Computer software purchased from third parties is initially recorded at cost.

Subscriber acquisition costs

Subscriber acquisition costs are expensed as incurred, unless they meet the criteria for capitalisation, in which case they are capitalised and amortised over the shorter of the customer life or contractual period.

Estimated useful economic lives

The estimated useful economic lives assigned to the principal categories of intangible assets are as follows:

Telecommunication licences	1 to 5 years
Brands, customer lists and customer relationships	3 to 15 years
Computer software	2 to 5 years

(ix) Research and development

Research expenditure is recognised in the income statement in the period in which it is incurred.

Development expenditure, including the cost of internally developed software, is recognised in the income statement in the period in which it is incurred unless it is probable that economic benefits will flow to the group from the asset being developed, the cost of the asset can be reliably measured and technical feasibility can be demonstrated. Capitalisation ceases when the asset being developed is ready for use.

Research and development costs include direct labour, contractors' charges, materials and directly attributable overheads.

(x) Property, plant and equipment

Property, plant and equipment is included in the balance sheet at historical cost, less accumulated depreciation and any impairment losses.

On disposal of property, plant and equipment, the difference between the sale proceeds and the net book value at the date of disposal is recorded in the income statement.

Cost

Included within the cost for network infrastructure and equipment are direct labour, contractors' charges, materials and directly attributable overheads.

Depreciation

Depreciation is provided on property, plant and equipment on a straight line basis from the time the asset is available for use, so as to write off the asset's cost over the estimated useful life taking into account any expected residual value. Freehold land is not subject to depreciation.

The lives assigned to principal categories of assets are as follows:

Land and buildings	
Freehold buildings	40 years
Leasehold land and buildings	Unexpired portion of lease or 40 years, whichever is the shorter
Network infrastructure and equipment	
Transmission equipment:	
Duct	40 years
Cable	3 to 25 years
Radio and repeater equipment	2 to 25 years
Exchange equipment	2 to 13 years
Payphones and other network equipment	2 to 20 years
Other	
Motor vehicles	2 to 9 years
Computers and office equipment	3 to 6 years

Assets held under finance leases are depreciated over the shorter of the lease term or their useful economic life. Residual values and useful lives are reassessed annually and, if necessary, changes are recognised prospectively.

(xi) Borrowing costs

All borrowing costs are expensed in the income statement in the period in which they are incurred.

(xii) Asset impairment (non-financial assets)

Intangible assets with finite useful lives and property, plant and equipment are tested for impairment if events or changes in circumstances (assessed at each reporting date) indicate that the carrying amount may not be recoverable. When an impairment test is performed, the recoverable amount is assessed by reference to the higher of the net present value of the expected future cash flows (value in use) of the relevant cash generating unit and the fair value less cost to sell.

Goodwill and intangible assets with indefinite useful lives are tested for impairment at least annually.

Impairment losses are recognised in the income statement.

If a cash generating unit is impaired, provision is made to reduce the carrying amount of the related assets to their estimated recoverable amount, normally as a specific item. Impairment losses are allocated firstly against goodwill, and secondly on a pro rata basis against intangible and other assets.

Where an impairment loss has been recognised against an asset, it may be reversed in future periods where there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised, but only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. This does not apply for goodwill, for which an impairment loss may not be reversed in any circumstances.

(xiii) Inventory

Inventory mainly comprises items of equipment held for sale or rental and consumable items.

Equipment held and consumable items are stated at the lower of cost and estimated net realisable value, after provisions for obsolescence. Cost is calculated on a first-in-first-out basis.

(xiv) Termination benefits

Termination benefits (leaver costs) are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits when it is demonstrably committed to the affected employees leaving the group.

(xv) Post retirement benefits

The group operates a funded defined benefit pension plan, which is administered by an independent trustee, for the majority of its employees.

The group's obligation in respect of defined benefit pension plans is calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service to date. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted to arrive at the net pension obligation or asset. The discount rate used is the yield at the balance sheet date on AA credit rated bonds that have maturity dates approximating the terms of the group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. The net obligation or asset recognised in the balance sheet is the present value of the defined benefit obligation less the fair value of the plan assets.

The income statement charge is allocated between an operating charge and a net finance charge. The operating charge reflects the service cost which is spread systematically over the working lives of the employees. The net finance charge reflects the unwinding of the discount applied to the liabilities of the plan, offset by the expected return on the assets of the plan, based on conditions prevailing at the start of the year.

Actuarial gains and losses are recognised in full in the period in which they occur and are presented in the statement of recognised income and expense.

Actuarial valuations of the main defined benefit plan are carried out by an independent actuary as determined by the trustees at intervals of not more than three years, to determine the rates of contribution payable. The pension cost is determined on the advice of the group's actuary, having regard to the results of these trustee valuations. In any intervening years, the actuaries review the continuing appropriateness of the contribution rates.

The group also operates defined contribution pension schemes and the income statement is charged with the contributions payable.

(xvi) Share based payments

The group has a number of employee share schemes, share option and award plans under which it makes equity settled share based payments to employees. The fair value of options and awards granted is recognised as an expense after taking into account the group's best estimate of the number of options and awards expected to vest allowing for non market and service conditions. Fair value is measured at the date of grant and is spread over the vesting period of the award. The fair value of options and awards granted is measured using either the Binomial or Monte Carlo model, whichever is most appropriate to the award.

(xvii) Taxation

Current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries and associates operate and generate taxable income. The group periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation, and the group establishes provisions where appropriate on the basis of the amounts expected to be paid to tax authorities.

Deferred tax is recognised, using the liability method, in respect of temporary differences between the carrying amount of the group's assets and liabilities and their tax base, except to the extent that the deferred tax asset or liability arises from the initial recognition of goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and affects neither accounting profit nor taxable profit.

Deferred tax liabilities are, where permitted under IAS 12 'Income Taxes', offset against deferred tax assets within the same taxable entity or qualifying local tax group. Any remaining deferred tax asset is recognised only when, on the basis of all available evidence, it can be regarded as probable that there will be suitable taxable profits, within the same jurisdiction, in the foreseeable future against which the deductible temporary difference can be utilised.

Deferred tax is determined using tax rates that are expected to apply in the periods in which the asset is realised or liability settled, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Current and deferred tax are recognised in the income statement, except when the tax relates to items charged or credited directly in equity, in which case the tax is also recognised in equity.

(xviii) Advertising and marketing

The costs associated with the group's advertising and marketing activities are expensed within other operating costs as incurred.

(xix) Dividends

Final dividends are recognised as a liability in the year in which they are declared and approved by the company's shareholders in general meeting. Interim dividends are recognised when they are paid.

(xx) Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Financial liabilities within provisions are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method. Onerous lease provisions have been measured at the lower of the cost to fulfil the contract or the cost to exit it.

(xxi) Financial instruments

Recognition and derecognition of financial assets and financial liabilities

Financial assets and financial liabilities are recognised when the group becomes party to the contractual provisions of the instrument. Financial assets are derecognised when the group no longer has rights to cash flows, the risks and rewards of ownership or control of the asset. Financial liabilities are derecognised when the obligation under the liability is discharged, cancelled or expires. In particular, for all regular way purchases and sales of financial assets, the group recognises the financial assets on the settlement date, which is the date on which the asset is delivered to or by the group.

Financial assets

Financial assets at fair value through income statement

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term (held for trading) or if so designated by management. Financial assets held in this category are initially recognised and subsequently measured at fair value, with changes in value recognised in the income statement in the line which most appropriately reflects the nature of the item or transaction. The direct transaction costs are recognised immediately in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than:

- those that the group intends to sell immediately or in the short term, which are classified as held for trading;
- those for which the group may not recover substantially all of its initial investment, other than because of credit deterioration, which are classified as available-for-sale.

Loans and receivables are initially recognised at fair value plus transaction costs and subsequently carried at amortised cost using the effective interest method, with changes in carrying value recognised in the income statement in the line which most appropriately reflects the nature of the item or transaction.

Available-for-sale financial assets

Non-derivative financial assets classified as available-for-sale are either specifically designated in this category or not classified in any of the other categories. Available-for-sale financial assets are initially recognised at fair value plus direct transaction costs and then remeasured at subsequent reporting dates to fair value, with unrealised gains and losses (except for changes in exchange rates for monetary items, interest, dividends and impairment losses, which are recognised in the income statement) recognised in equity until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is taken to the income statement, in the line that most appropriately reflects the nature of the item or transaction.

Trade and other receivables

Financial assets within trade and other receivables are initially recognised at fair value, which is usually the original invoiced amount, and are subsequently carried at amortised cost using the effective interest method less provisions made for doubtful receivables.

Provisions are made specifically where there is evidence of a risk of non-payment, taking into account ageing, previous losses experienced and general economic conditions.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and current balances with banks and similar institutions, which are readily convertible to cash and which are subject to insignificant risk of changes in value and have an original maturity of three months or less.

For the purpose of the consolidated cash flow statement, cash and cash equivalents are as defined above net of outstanding bank overdrafts. Bank overdrafts are included within loans and other borrowings, in current liabilities on the balance sheet.

Impairment of financial assets

The group assesses at each balance sheet date whether a financial asset or group of financial assets are impaired.

Where there is objective evidence that an impairment loss has arisen on assets carried at amortised cost, the carrying amount is reduced with the loss being recognised in the income statement. The impairment loss is measured as the difference between that asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment loss is only reversed if it can be related objectively to an event after the impairment was recognised and is reversed to the extent that the carrying value of the asset does not exceed its amortised cost at the date of reversal.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its fair value is transferred from equity to the income statement. Reversals of impairment losses on debt instruments are taken through the income statement if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement. Reversals in respect of equity instruments classified as available-for-sale are recognised directly in equity.

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be objectively measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Financial liabilities

Trade and other payables

Financial liabilities within trade and other payables are initially recognised at fair value, which is usually the original invoiced amount, and subsequently carried at amortised cost using the effective interest method.

Loans and other borrowings

Loans and other borrowings are initially recognised at fair value plus directly attributable transaction costs. Where loans and other borrowings contain a separable embedded derivative, the fair

value of the embedded derivative is the difference between the fair value of the hybrid instrument and the fair value of the loan or borrowing. The fair value of the embedded derivative and the loan or borrowing is recorded separately on initial recognition. Loans and other borrowings are subsequently measured at amortised cost using the effective interest method and, if included in a fair value hedge relationship, are revalued to reflect the fair value movements on the hedged risk associated with the loans and other borrowings. The resultant amortisation of fair value movements, on de-designation of the hedge, are recognised in the income statement.

Financial guarantees
Financial guarantees are recognised initially at fair value plus transaction costs and subsequently measured at the higher of the amount determined in accordance with the accounting policy relating to provisions and the amount initially determined less, when appropriate, cumulative amortisation.

Derivative financial instruments
The group uses derivative financial instruments mainly to reduce exposure to foreign exchange risks and interest rate movements. The group does not hold or issue derivative financial instruments for financial trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are classified as held for trading and are initially recognised and subsequently measured at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the income statement in net finance expense. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedge. Derivative financial instruments are classified as current assets or current liabilities where they are not designated in a hedging relationship or have a maturity period within 12 months. Where derivative financial instruments have a maturity period greater than 12 months and are designated in a hedge relationship, they are classified within either non current assets or non current liabilities.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risk and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value. Changes in the fair value of embedded derivatives are recognised in the income statement in the line which most appropriately reflects the nature of the item or transaction.

Hedge accounting
To qualify for hedge accounting, hedge documentation must be prepared at inception and the hedge must be expected to be highly effective both prospectively and retrospectively. The hedge is tested for effectiveness at inception and in subsequent periods in which the hedge remains in operation.

Cash flow hedge
When a financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity.

For cash flow hedges of recognised assets or liabilities, the associated cumulative gain or loss is removed from equity and recognised in the same line in the income statement in the same period or periods during which the hedged transaction affects the income statement.

For highly probable transactions, when the transaction subsequently results in the recognition of a non-financial asset or non-financial liability the associated cumulative gain or loss is removed from equity and included in the initial cost or carrying amount of the non-financial asset or liability.

If a hedge of a highly probable transaction subsequently results in the recognition of a financial asset or a financial liability, then the associated gains and losses that were recognised directly in equity are reclassified into the income statement in the same period or periods during which the asset acquired or liability assumed affects the income statement.

Any ineffectiveness arising on a cash flow hedge of a recognised asset or liability is recognised immediately in the same income statement line as the hedged item. Where ineffectiveness arises on highly probable transactions, it is recognised in the line which most appropriately reflects the nature of the item or transaction.

Fair value hedge
When a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability, or unrecognised firm commitment, the change in fair value of the derivatives that are designated as fair value hedges are recorded in the same line in the income statement, together with any changes in fair value of the hedged asset or liability that is attributable to the hedged risk.

Hedge of net investment in a foreign operation
Exchange differences arising from the retranslation of currency instruments designated as hedges of net investments in a foreign operation are taken to shareholders' equity on consolidation to the extent that the hedges are deemed effective.

Any ineffectiveness arising on a hedge of a net investment in a foreign operation is recognised in net finance expense.

Discontinuance of hedge accounting
Discontinuance of hedge accounting may occur when a hedging instrument expires or is sold, terminated or exercised, or when the hedge no longer qualifies for hedge accounting or the group revokes designation of the hedge relationship but the hedged financial asset or liability remains or a highly probable transaction is still expected to occur. Under a cash flow hedge, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place or the underlying hedged financial asset or liability no longer exists, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the income statement. Under a hedge of a net investment, the cumulative gain or loss remains in equity when the hedging instrument expires or is sold, terminated or exercised, or when the hedge no longer qualifies for hedge accounting or the group revokes designation of the hedge relationship. The cumulative gain or loss is recognised in the income statement as part of the profit on disposal when the net investment in the foreign operation is disposed. Under a fair value hedge, the cumulative gain or loss adjustment associated with the hedged risk is amortised to the income statement using the effective interest method over the remaining term of the hedged item.

Share capital
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds received. Shares in the parent company, BT Group plc, held by employee share ownership trusts and repurchased shares are recorded in the balance sheet as a deduction from shareholders' equity at cost.

Critical accounting estimates and key judgements

The preparation of financial statements in conformity with IFRSs requires the use of accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying the group's accounting policies. We continually evaluate our estimates, assumptions and judgements based on available information and experience. As the use of estimates is inherent in financial reporting, actual results could differ from these estimates. The areas involving a higher degree of judgement or complexity are described below.

Long-term customer contracts

Long-term customer contracts can extend over a number of financial years. During the contractual period, revenue, costs and profits may be impacted by estimates of the ultimate profitability of each contract. If, at any time, these estimates indicate the contract will be unprofitable, the entire estimated loss for the contract is recognised immediately. The group performs ongoing profitability reviews of its contracts in order to determine whether the latest estimates are appropriate. Key factors reviewed include transaction volumes, or other inputs for which we get paid, future staff and third party costs and anticipated cost productivity, savings and efficiencies.

Interconnect income and payments to other telecommunications operators

In certain instances, BT relies on other operators to measure the traffic flows interconnecting with our networks. Estimates are used in these cases to determine the amount of income receivable from, or payments we need to make to, these other operators. The prices at which these services are charged are often regulated and are subject to retrospective adjustment, and estimates are used in assessing the likely effect of these adjustments.

Pension obligations

BT has a commitment, mainly through the BT Pension Scheme, to pay pension benefits to approximately 350,000 people over approximately 60 years. The cost of these benefits and the present value of our pension liabilities depend on such factors as the life expectancy of the members, the salary progression of our current employees, the return that the pension fund assets will generate in the time before they are used to fund the pension payments and the rate at which the future pension payments are discounted. We use estimates for all of these factors in determining the pension costs and liabilities incorporated in our financial statements. The assumptions reflect historical experience and our judgement regarding future expectations.

Useful lives for property, plant and equipment

The plant and equipment in BT's networks is long lived with cables and switching equipment operating for over ten years and underground ducts being used for decades. The annual depreciation charge is sensitive to the estimated service lives allocated to each type of asset. Asset lives are assessed annually and changed when necessary to reflect current thinking on their remaining lives in light of technological change, network investment plans (including the group's 21CN programme), prospective economic utilisation and physical condition of the assets concerned. Changes to the service lives of assets implemented from 1 April 2008 had no significant impact in aggregate on the results for the year ended 31 March 2009.

Income tax

The actual tax we pay on our profits is determined according to complex tax laws and regulations. Where the effect of these laws and regulations is unclear, we use estimates in determining the liability for the tax to be paid on our past profits which we recognise in our financial statements. We believe the estimates, assumptions and judgements are reasonable but this can involve complex issues which may take a number of years to resolve. The final determination of prior year tax liabilities could be different from the estimates reflected in the financial statements.

Deferred tax

Deferred tax assets and liabilities require management judgement in determining the amounts to be recognised. In particular, judgement is used when assessing the extent to which deferred tax assets should be recognised with consideration given to the timing and level of future taxable income.

Goodwill

The recoverable amount of cash generating units has been determined based on value in use calculations. These calculations require the use of estimates, including management's expectations of future revenue growth, operating costs and profit margins for each cash generating unit.

Determination of fair values

Certain financial instruments such as investments, derivative financial instruments and certain elements of loans and borrowings, are carried on the balance sheet at fair value, with changes in fair value reflected in the income statement. Fair values are estimated by reference in part to published price quotations and in part by using valuation techniques.

Providing for doubtful debts

BT provides services to around 15 million individuals and businesses, mainly on credit terms. We know that certain debts due to us will not be paid through the default of a small number of our customers. Estimates, based on our historical experience, are used in determining the level of debts that we believe will not be collected. These estimates include such factors as the current state of the economy and particular industry issues.

Property arrangements

As part of a property rationalisation programme, we have identified a number of surplus properties. Although efforts are being made to sub-let this space, it is recognised that this may not be possible immediately in the current economic environment. Estimates have been made of the cost of vacant possession and of any shortfall arising from the sub lease rental income being lower than the lease costs being borne by BT. Any such cost or shortfall has been recognised as a provision.

Accounting standards, interpretations and amendments to published standards adopted in the year ended 31 March 2009

IFRIC 14, 'Defined benefit assets and minimum funding requirements', became effective and was adopted during the year. The adoption of this standard has had no impact on the group's financial position or results of operations.

Accounting standards, interpretations and amendments to published standards not yet effective

Certain new standards, interpretations and amendments to existing standards have been published that are mandatory for the group's accounting periods beginning on or after 1 April 2009 or later

periods, but which the group has not adopted early. Those which are relevant to the group's operations are as follows:

IFRS 2, 'Share Based Payments – vesting conditions and cancellations', (effective from 1 April 2009)
The amendment to IFRS 2 clarifies that only service and performance conditions are vesting conditions. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet
a non-vesting condition that is within the control of either the group or the counterparty, this is accounted for as a cancellation. Cancellations must be treated as accelerated vestings and all remaining future charges are immediately recognised in the income statement. IFRS 2 requires retrospective adoption, therefore prior periods will be restated. The group expects adoption of this standard to increase the share based payment charge for 2009 by approximately £110m (2008: £nil). The group is currently assessing the impact of this standard on the share based payment charge for the year ended 31 March 2010.

IFRS 3 (Revised), 'Business Combinations' (effective from 1 April 2010)
IFRS 3 (Revised) amends certain aspects of accounting for business combinations set out in IFRS 3. Amendments include the requirement to expense all transaction costs as incurred and the requirement for all payments to acquire a business to be recorded at fair value at the acquisition date, with some contingent payments subsequently re-measured at fair value through the income statement. IFRS 3 (Revised) is applicable prospectively to business combinations effected on or after the effective date. Adoption of this standard will impact how the group accounts for business combinations entered into on or after 1 April 2010.

IFRS 8, 'Operating Segments' (effective from 1 April 2009)
IFRS 8 requires the identification of operating segments based on internal reporting to the chief operating decision maker and extends the scope and disclosure requirements of IAS 14, 'Segmental Reporting'. The group does not expect the adoption of IFRS 8 to significantly impact its segmental analysis disclosure.

IAS 1 (Revised), 'Presentation of Financial Statements' (effective from 1 April 2009)
IAS 1 (Revised) prescribes the basis for presentation of financial statements to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. IAS 1 (Revised) introduces a number of changes to the requirements for the presentation of financial statements, which include the following: the separate presentation of owner and non-owner changes in equity; requirement for entities making restatements or reclassifications of comparative information to present a balance sheet as at the beginning of the comparative period; and optional name changes for certain primary statements. Adoption of this revision will result in minor presentational changes to the group's financial statements from 1 April 2009.

Amendment to IAS 23, 'Borrowing Costs' (effective from 1 April 2009)
The amendment to IAS 23 eliminates the option to expense borrowing costs attributable to the acquisition, construction or production of a qualifying asset as incurred. As a result, the group will be required to capitalise such borrowing costs as part of the cost of that asset. The group has assessed the impact of this amendment and does not expect it to have a significant impact on the group's financial statements.

IAS 27 (Revised), 'Consolidated and Separate Financial Statements' (effective from 1 April 2010)
IAS 27 (Revised) requires the effects of all transactions with non controlling interests to be recorded in equity if there is no change in control. Such transactions will no longer result in goodwill or gains or losses being recorded. IAS 27 (Revised) also specifies that when control is lost, any remaining interest should be re-measured to fair value and a gain or loss recorded through the income statement. The group has assessed the impact of this interpretation and concluded that it is not likely to have a significant impact on the group's financial statements.

IFRIC 12, 'Service Concession Arrangements' (effective from 1 April 2009; effective under full IFRS from 1 April 2008, but not adopted by the EU until 25 March 2009)
IFRIC 12 addresses the accounting by operators of public-private service concession arrangements. The group has assessed the impact of this interpretation and has concluded that it does not have a significant impact on the group's financial statements.

IFRIC 13, 'Customer Loyalty Programmes' (effective from 1 April 2009)
IFRIC 13 clarifies that where goods and services are sold together with a customer loyalty incentive, the arrangement is a multiple element arrangement and the consideration receivable from the customer should be allocated between the components of the arrangement in proportion to their fair values. The group has assessed the impact of this interpretation and has concluded that it is not likely to have a significant impact on the group's financial statements.

Amendment to IFRS 7, 'Financial Instruments: Disclosures' (effective 1 April 2009)
The amendments to IFRS 7 introduce a three level hierarchy for fair value measurement disclosures and require entities to provide additional disclosures about the relative reliability of fair value measurements. In addition, the amendments clarify the existing requirements for the disclosure of liquidity risk. The group will be required to make additional disclosures to comply with these amendments.

IFRIC 16, 'Hedges of a Net Investment in a Foreign Operation' (effective 1 April 2009)
IFRIC 16 provides guidance on accounting for the hedge of a net investment in a foreign operation in an entity's consolidated financial statements. The standard provides guidance on which risks are eligible for hedge accounting in accordance with IFRS, as follows: 1) presentational currency does not create an exposure to which the entity may apply hedge accounting, 2) the hedging instruments may be held by an entity or entities within the group, and 3) while IAS 39, 'Financial Instruments: Recognition and Measurement', must be applied to determine the amount that needs to be reclassified to profit or loss from the foreign currency translation reserve in respect of the hedging instrument, IAS 21, 'The Effects of Changes in Foreign Exchange Rates', must be applied in respect of the hedged item. The group does not expect adoption of this guidance to have a significant impact on the group's financial statements.

IFRIC 17, 'Distributions of Non-cash Assets to Owners' (effective 1 April 2010)

IFRIC 17 provides guidance on how an entity should measure distributions other than cash when it pays dividends to its owners. The standard requires the dividend payable to be measured at the fair value of the assets to be distributed, and any difference between the fair value and the book value of the assets is recorded in the income statement. The group does not expect adoption of this guidance to have a significant impact on the group's financial statements.

IFRIC 18, 'Transfers of Assets from Customers' (effective 1 July 2009)

IFRIC 18 applies to all agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must use either to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services. IFRIC 18 requires the entity receiving the item of property, plant and equipment to recognise it in its financial statements if it meets the definition of an asset. The recognition of the transfer of the asset is accounted for in accordance with IAS 16, 'Property, Plant and Equipment', and, because an exchange of dissimilar goods or services has occurred, IAS 18, 'Revenue'. The group is currently assessing the impact of the amendment upon the group's financial statements.

GROUP INCOME STATEMENT

Year ended 31 March 2009	Notes	Before specific items £m	Specific items[a] £m	Total £m
Revenue	1	**21,390**	**–**	**21,390**
Other operating income	2	352	(13)	339
Operating costs	3	(20,923)	(395)	(21,318)
Operating profit	1	**819**	**(408)**	**411**
Finance expense	5	(3,272)	–	(3,272)
Finance income	5	2,652	–	2,652
Net finance expense		**(620)**	–	**(620)**
Share of post tax profit of associates and joint ventures	14	39	36	75
(Loss) profit before taxation		**238**	**(372)**	**(134)**
Taxation	7	10	43	53
(Loss) profit for the year		**248**	**(329)**	**(81)**
Attributable to:				
Equity shareholders of the parent		246	(329)	(83)
Minority interests	21	2	–	2
Loss per share	8			
Basic				(1.1)p
Diluted				(1.1)p

[a] For a definition of specific items, see page 79. An analysis of specific items is provided in note 4.

Dividends paid in the year were £1,222m (2008: £1,241m, 2007: £1,053m), as shown in note 6. Dividends proposed in respect of 2009 were 6.5p per share (2008: 15.8p, 2007: 15.1p) which amounts to approximately £503m (2008: £1,236m, 2007: £1,247m).

Year ended 31 March 2008	Notes	Before specific items £m	Specific items[a] £m	Total £m
Revenue	1	**20,704**	**–**	**20,704**
Other operating income	2	359	(10)	349
Operating costs	3	(18,168)	(529)	(18,697)
Operating profit	1	**2,895**	**(539)**	**2,356**
Finance expense	5	(2,891)	–	(2,891)
Finance income	5	2,513	–	2,513
Net finance expense		**(378)**	**–**	**(378)**
Share of post tax loss of associates and joint ventures	14	(11)	–	(11)
Profit on disposal of associate		–	9	9
Profit before taxation		**2,506**	**(530)**	**1,976**
Taxation	7	(581)	343	(238)
Profit for the year		**1,925**	**(187)**	**1,738**
Attributable to:				
Equity shareholders of the parent		1,924	(187)	1,737
Minority interests	21	1	–	1
Earnings per share	8			
Basic				21.5p
Diluted				21.1p

[a] For a definition of specific items, see page 79. An analysis of specific items is provided in note 4.

GROUP INCOME STATEMENT

Year ended 31 March 2007	Notes	Before specific items £m	Specific items[a] £m	Total £m
Revenue	1	**20,223**	**–**	**20,223**
Other operating income	2	236	(3)	233
Operating costs	3	(17,746)	(169)	(17,915)
Operating profit	1	**2,713**	**(172)**	**2,541**
Finance expense	5	(2,604)	–	(2,604)
Finance income	5	2,371	139	2,510
Net finance expense		**(233)**	**139**	**(94)**
Share of post tax profit of associates and joint ventures	14	15	–	15
Profit on disposal of associate		–	22	22
Profit before taxation		**2,495**	**(11)**	**2,484**
Taxation	7	(611)	979	368
Profit for the year		**1,884**	**968**	**2,852**
Attributable to:				
Equity shareholders of the parent		1,882	968	2,850
Minority interests	21	2	–	2
Earnings per share	8			
Basic				34.4p
Diluted				33.6p

[a] For a definition of specific items, see page 79. An analysis of specific items is provided in note 4.

GROUP STATEMENT OF RECOGNISED INCOME AND EXPENSE

Year ended 31 March	Notes	2009 £m	2008 £m	2007 £m
(Loss) profit for the year		(81)	1,738	2,852
Actuarial (losses) gains relating to retirement benefit obligations	29	(7,037)	2,621	1,409
Exchange differences:				
– on translation of foreign operations		692	213	(95)
Fair value movements on available-for-sale assets:				
– fair value gains		5	–	–
Fair value movements on cash flow hedges:				
– fair value gains (losses)		2,719	446	(201)
– reclassified and reported in net (loss) profit		(2,144)	(294)	364
– reclassified and reported in non current assets		(5)	11	–
Tax impact of above items	7	1,859	(832)	(486)
Net (losses) gains recognised directly in equity		**(3,911)**	**2,165**	**991**
Total recognised income and expense for the year		**(3,992)**	**3,903**	**3,843**
Attributable to:				
Equity shareholders of the parent		(3,994)	3,899	3,843
Minority interests		2	4	–
		(3,992)	3,903	3,843

A reconciliation of the changes in other reserves and retained earnings is given in notes 24 and 25.

GROUP CASH FLOW STATEMENT

Year ended 31 March	Notes	2009 £m	2008 £m	2007 £m
Cash flow from operating activities				
(Loss) profit before taxation[a]		(134)	1,976	2,484
Depreciation and amortisation		2,890	2,889	2,920
Loss (profit) on sale of associates and non current asset investments		13	1	(19)
Net finance expense		620	378	94
Other non cash charges		486	60	50
Share of (profits) losses of associates and joint ventures		(75)	11	(15)
Decrease (increase) in inventories		11	23	(6)
Decrease (increase) in trade and other receivables		1,063	(498)	(373)
(Decrease) increase in trade and other payables		(379)	451	282
Increase (decrease) in provisions and other liabilities		439	(104)	(172)
Cash generated from operations[a]		**4,934**	**5,187**	**5,245**
Income taxes paid		(232)	(222)	(411)
Income tax repayment for prior years		4	521	376
Net cash inflow from operating activities		**4,706**	**5,486**	**5,210**
Cash flow from investing activities				
Interest received		19	111	147
Dividends received from associates and joint ventures		6	2	6
Proceeds on disposal of group undertakings		–	–	27
Proceeds on disposal of property, plant and equipment		44	62	89
Proceeds on disposal of associates and joint ventures		–	13	27
Proceeds on disposal of non current financial assets		–	1	4
Proceeds on disposal of current financial assets[b]		6,316	4,779	8,525
Acquisition of subsidiaries, net of cash acquired		(227)	(377)	(284)
Purchases of property, plant and equipment and computer software		(3,082)	(3,315)	(3,298)
Investment in associates and joint ventures		–	–	(7)
Purchases of non current financial assets		–	(2)	(7)
Purchases of current financial assets[b]		(6,030)	(4,938)	(8,007)
Net cash outflow from investing activities		**(2,954)**	**(3,664)**	**(2,778)**
Cash flow from financing activities				
Equity dividends paid		(1,221)	(1,236)	(1,054)
Dividends paid to minority interests		(1)	–	(3)
Interest paid		(956)	(842)	(797)
Repayments of borrowings		(863)	(913)	(809)
Repayment of finance lease liabilities		(16)	(284)	(276)
Net proceeds on issue of (purchase of) commercial paper		606	(681)	309
New bank loans raised		795	3,939	11
Repurchase of ordinary shares		(334)	(1,498)	(400)
Proceeds on issue of treasury shares		125	85	123
Repurchase of ordinary shares by subsidiary		–	–	(2)
Net cash used in financing activities		**(1,865)**	**(1,430)**	**(2,898)**
Effect of exchange rate changes on cash and cash equivalents		54	25	(35)
Net (decrease) increase in cash and cash equivalents		**(59)**	**417**	**(501)**
Cash and cash equivalents at the start of the year		1,174	757	1,258
Cash and cash equivalents at the end of the year	9	**1,115**	**1,174**	**757**

[a] The reconciliation from the loss before taxation of £134m for 2009 to the cash generated from operations of £4,934m for 2009 includes BT Global Services contract and financial review charges of £1,639m (2008 and 2007: £nil), which are non-cash charges. For further detail, see note 3.
[b] Primarily consists of investment in and redemption of amounts held in liquidity funds.

GROUP BALANCE SHEET

At 31 March	Notes	2009 £m	2008 £m
Non current assets			
Intangible assets	11	3,788	3,355
Property, plant and equipment	12	15,405	15,307
Derivative financial instruments	17	2,456	310
Investments	13	55	31
Retirement benefit asset	29	–	2,887
Associates and joint ventures	14	132	85
Trade and other receivables	15	322	854
Deferred tax assets	20	1,103	–
		23,261	**22,829**
Current assets			
Inventories		121	122
Trade and other receivables	15	4,185	4,449
Derivative financial instruments	17	244	77
Investments	13	163	440
Cash and cash equivalents	9	1,300	1,435
		6,013	**6,523**
Current liabilities			
Loans and other borrowings	16	1,542	1,524
Derivative financial instruments	17	340	267
Trade and other payables	18	7,215	7,591
Current tax liabilities		1	241
Provisions	19	254	81
		9,352	**9,704**
Total assets less current liabilities		**19,922**	**19,648**
Non current liabilities			
Loans and other borrowings	16	12,365	9,818
Derivative financial instruments	17	427	805
Retirement benefit obligations	29	3,973	108
Other payables	18	794	707
Deferred tax liabilities	20	1,728	2,513
Provisions	19	466	265
		19,753	**14,216**
Equity			
Ordinary shares	23	408	420
Share premium	23	62	62
Capital redemption reserve		27	15
Other reserves	24	1,301	(527)
Retained (loss) earnings	25	(1,656)	5,439
Total parent shareholders' equity		**142**	**5,409**
Minority interests	21	27	23
Total equity	22	**169**	**5,432**
		19,922	**19,648**

The consolidated financial statements on pages 79 to 135 and 141 were approved by the Board of Directors on 13 May 2009 and were signed on its behalf by

Sir Michael Rake
Chairman

Ian Livingston
Chief Executive

Tony Chanmugam
Group Finance Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Segmental analysis

Primary reporting format – business segments

The group's principal activities include: the provision of networked IT services; local, national and international telecommunications services; broadband and internet products and services; and converged fixed/mobile products and services.

The group is organised into four customer-facing lines of business, BT Global Services, BT Retail, BT Wholesale and Openreach, which are supported by two internal functional units, BT Design and BT Operate.

The activities of each of the customer-facing lines of business are as follows:

BT Global Services serves major corporate, carrier and government organisations across the world, providing high-performance managed networked IT services, application management, professional services and outsourcing solutions.

BT Retail serves consumer customers and small and medium-sized enterprises (SMEs) in the UK, providing a range of innovative communications products and services. BT Retail also includes BT Ireland, which operates across the major corporate, SME, consumer and wholesale markets throughout the Republic of Ireland and Northern Ireland, and Enterprises, which comprises a number of individual businesses such as BT Conferencing, BT Directories and BT Payphones.

BT Wholesale provides services to UK communications providers through a diverse portfolio ranging from nationally available broadband, voice and data connectivity services and interconnect to bespoke, fully managed network outsourcing and value-added solutions.

Openreach is responsible for the crucial 'first mile' connecting communications providers' customers to their local telephone exchange, giving them equal, open and economic access to the UK network. Openreach products are sold on an equivalent basis to BT lines of business and other communications providers at the same arm's length prices, with the BT lines of business being treated no differently than any other customer with regard to terms and conditions or access to systems and data.

BT Design and BT Operate are internal functional units which support the four customer-facing lines of business. BT Design is responsible for the design and build of the platforms, systems and processes which support the provision of the group's products and services, and BT Operate is responsible for their operation. The group's reportable segments are the four customer-facing lines of business; neither BT Design nor BT Operate are reportable segments. Neither BT Design nor BT Operate generate any revenue and both operate on a cost recovery basis. The costs incurred by BT Design and BT Operate are allocated to the customer-facing lines of business in line with the services they provide. The depreciation and amortisation incurred by BT Operate in relation to the networks and systems they manage and operate on behalf of the customer-facing lines of business are allocated to the lines of business based on their respective utilisation. The assets managed by BT Operate and their capital expenditure in the year are also allocated to the lines of business in a manner consistent with their depreciation and amortisation. Accordingly, the segmental results do not necessarily reflect the operating results of the lines of business as if they were independent business operations.

Intra-group revenue generated from the sale of regulated products and services is based on market price. Intra-group revenue from the sale of other products and services is agreed between the relevant lines of business.

In addition to the four customer-facing lines of business, the remaining operations of the group are aggregated and included within the 'Other' category to reconcile to the consolidated results of the group. In the prior year, the results of 'Other' included any over or under recovery of costs by BT Design and BT Operate. In the current year, all costs from BT Design and BT Operate have been fully allocated to the customer-facing lines of business in line with the services they provide. This amounts to £32m of operating costs and £129m of depreciation and amortisation in the year to 31 March 2009. In 2008, there was no such allocation as we were transforming the business and developing the trading model.

Revenue by line of business

Year ended 31 March 2009	BT Global Services £m	BT Retail £m	BT Wholesale £m	Openreach £m	Other £m	Intra-group £m	Total £m
External revenue	8,828	8,112	3,430	978	42	–	21,390
Internal revenue	–	359	1,228	4,253	–	(5,840)	–
Total revenue	**8,828**	**8,471**	**4,658**	**5,231**	**42**	**(5,840)**	**21,390**

Year ended 31 March 2008	BT Global Services £m	BT Retail £m	BT Wholesale £m	Openreach £m	Other £m	Intra-group £m	Total £m
External revenue	7,889	8,194	3,707	886	28	–	20,704
Internal revenue	–	283	1,252	4,380	–	(5,915)	–
Total revenue	**7,889**	**8,477**	**4,959**	**5,266**	**28**	**(5,915)**	**20,704**

Year ended 31 March 2007	BT Global Services £m	BT Retail £m	BT Wholesale £m	Openreach £m	Other £m	Intra-group £m	Total £m
External revenue	7,312	8,100	4,109	685	17	–	20,223
Internal revenue	–	246	1,277	4,538	–	(6,061)	–
Total revenue	**7,312**	**8,346**	**5,386**	**5,223**	**17**	**(6,061)**	**20,223**

1. Segmental analysis continued

Operating results by line of business

Year ended 31 March 2009	BT Global Services £m	BT Retail £m	BT Wholesale £m	Openreach £m	Other £m	Total £m
Operating (loss) profit before specific items	(2,106)	1,209	580	1,218	(82)	819
Specific items[a]					(408)	(408)
Segment result[b]	**(2,106)**	**1,209**	**580**	**1,218**	**(490)**	**411**
Share of post tax profit of associates and joint ventures						75
Net finance expense						(620)
Loss before tax						**(134)**
Taxation						53
Loss for the year						**(81)**
Depreciation	537	340	645	707	20	2,249
Amortisation	239	85	41	71	205	641

[a] The 2009 specific items include BT Global Services restructuring charges of £280m (2008 and 2007: £nil), of which £4m was paid in cash in 2009, and 21CN asset impairment and related charges of £50m (2008 and 2007: £nil), which are non-cash charges.
[b] The 2009 BT Global Services segment result of £(2,106)m includes contract and financial review charges of £1,639m (2008 and 2007: £nil), which are non-cash charges. For further detail, see note 3.

Year ended 31 March 2008	BT Global Services £m	BT Retail £m	BT Wholesale £m	Openreach £m	Other £m	Total £m
Operating profit before specific items	117	1,050	502	1,222	4	2,895
Specific items					(539)	(539)
Segment result	**117**	**1,050**	**502**	**1,222**	**(535)**	**2,356**
Share of post tax loss of associates and joint ventures						(11)
Profit on disposal of associate						9
Net finance expense						(378)
Profit before tax						**1,976**
Taxation						(238)
Profit for the year						**1,738**
Depreciation	548	377	839	664	(18)	2,410
Amortisation	196	68	54	25	136	479

Year ended 31 March 2007	BT Global Services £m	BT Retail £m	BT Wholesale £m	Openreach £m	Other £m	Total £m
Operating profit before specific items	70	912	592	1,220	(81)	2,713
Specific items					(172)	(172)
Segment result	**70**	**912**	**592**	**1,220**	**(253)**	**2,541**
Share of post tax profit of associates and joint ventures						15
Profit on disposal of associate						22
Net finance expense						(94)
Profit before tax						**2,484**
Taxation						368
Profit for the year						**2,852**
Depreciation	484	402	864	663	123	2,536
Amortisation	181	43	44	44	72	384

1. Segmental analysis continued

Assets and liabilities by line of business

At 31 March 2009	BT Global Services £m	BT Retail £m	BT Wholesale £m	Openreach £m	Other £m	Total £m
Assets						
Segment assets	7,501	2,850	3,038	9,285	1,147	23,821
Associates and joint ventures					132	132
Unallocated assets					5,321	5,321
Consolidated total assets	**7,501**	**2,850**	**3,038**	**9,285**	**6,600**	**29,274**
Liabilities						
Segment liabilities	3,927	2,068	1,275	594	253	8,117
Unallocated liabilities					20,988	20,988
Consolidated total liabilities	**3,927**	**2,068**	**1,275**	**594**	**21,241**	**29,105**
Capital expenditure						
Property, plant and equipment	478	270	537	823	141	2,249
Intangible assets	339	51	70	143	236	839
	817	**321**	**607**	**966**	**377**	**3,088**
Consideration for acquisitions	13	98	–	–	75	186
Total capital additions	**830**	**419**	**607**	**966**	**452**	**3,274**

At 31 March 2008	BT Global Services £m	BT Retail £m	BT Wholesale £m	Openreach £m	Other £m	Total £m
Assets						
Segment assets	8,131	2,999	3,870	9,150	(63)	24,087
Associates and joint ventures					85	85
Unallocated assets					5,180	5,180
Consolidated total assets	**8,131**	**2,999**	**3,870**	**9,150**	**5,202**	**29,352**
Liabilities						
Segment liabilities	3,773	2,365	1,008	850	567	8,563
Unallocated liabilities					15,357	15,357
Consolidated total liabilities	**3,773**	**2,365**	**1,008**	**850**	**15,924**	**23,920**
Capital expenditure						
Property, plant and equipment	474	281	560	972	226	2,513
Intangible assets	310	80	103	101	232	826
	784	**361**	**663**	**1,073**	**458**	**3,339**
Consideration for acquisitions	406	71	–	–	–	477
Total capital additions	**1,190**	**432**	**663**	**1,073**	**458**	**3,816**

Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, and trade receivables. Unallocated assets include cash and cash equivalents, deferred and current taxation, investments, derivatives, associates and joint ventures, and retirement benefit assets. Segment liabilities comprise trade and other payables, and provisions. Unallocated liabilities include current and deferred taxation, retirement benefit obligations, finance lease liabilities, corporate borrowings and related derivatives.

1. Segmental analysis continued

Secondary reporting format – geographical information

Revenue by geographic area	2009 £m	2008 £m	2007 £m
UK	16,736	17,186	17,241
Europe, Middle East and Africa, excluding the UK	3,247	2,510	2,174
Americas	1,119	847	711
Asia Pacific	288	161	97
Total	**21,390**	**20,704**	**20,223**

The analysis of revenue by geographical area is on the basis of the country of origin of the customer invoice. In an analysis of revenue by destination, incoming and transit international calls would be treated differently, but would not lead to a materially different geographical analysis.

	Total assets		Capital expenditure		Consideration for acquisitions	
Total assets, capital expenditure and consideration for acquisitions by geographic area	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m
UK	17,996	18,435	2,772	3,023	40	71
Europe, Middle East and Africa, excluding the UK	4,346	4,231	170	189	17	134
Americas	1,364	1,286	113	103	129	130
Asia Pacific	247	220	33	24	–	142
Unallocated assets	5,321	5,180	–	–	–	–
Total assets	**29,274**	**29,352**	**3,088**	**3,339**	**186**	**477**

Total assets and capital expenditure are allocated to geographical areas based on the location of the asset.

2. Other operating income

	2009 £m	2008 £m	2007 £m
Profits on disposal of property, plant and equipment	52	50	20
Income from repayment works	72	74	68
Other operating income	228	235	148
Other operating income before specific items	**352**	**359**	**236**
Specific items (note 4)	(13)	(10)	(3)
Other operating income	**339**	**349**	**233**

FINANCIAL STATEMENTS

3. Operating costs

	2009 £m	2008 £m	2007 £m
Costs by nature			
Staff costs:			
Wages and salaries	4,499	4,242	4,099
Social security costs	432	417	388
Pension costs	544	626	643
Share based payment costs	31	73	93
Total staff costs	**5,506**	**5,358**	**5,223**
Own work capitalised	(673)	(724)	(718)
Net staff costs	**4,833**	**4,634**	**4,505**
Depreciation of property, plant and equipment:			
Owned assets	2,200	2,324	2,420
Held under finance leases	49	86	116
Amortisation of intangible assets	641	479	384
Payments to telecommunications operators	4,266	4,237	4,162
Other operating costs[a]	8,934	6,408	6,159
Total operating costs before specific items	**20,923**	**18,168**	**17,746**
Specific items (note 4)	395	529	169
Total operating costs	**21,318**	**18,697**	**17,915**
Operating costs before specific items include the following:			
Contract and financial review charges	1,598	–	–
Leaver costs[b]	204	127	147
Research and development expenditure[c]	1,021	857	692
Rental costs relating to operating leases	426	423	389
Foreign currency losses	30	8	5

[a] Other operating costs also include a net credit of £8m (2008 and 2007: £nil) relating to fair value movements on derivatives recycled from the cash flow reserve.
[b] Leaver costs exclude manager leaver costs associated with the group's transformation and reorganisation activities during 2009 and 2008. Manager leaver costs associated with the transformation activities have been recorded as a specific item. Other leaver costs are included within wages and salaries and social security costs.
[c] Research and development expenditure includes amortisation of £431m (2008: £325m, 2007: £314m) in respect of internally developed computer software.

In 2009, the group recognised contract and financial review charges of £1,639m, of which £1,598m was recorded within other operating costs and £41m was recorded as a reduction to revenue. As described on page 10, the financial review covered the financial performance of BT Global Services and its balance sheet position. The contract reviews covered the largest and most complex contracts. These charges reflect a more cautious view of the recognition of future cost efficiencies and other changes in the underlying assumptions and estimates, particularly in the light of the current economic outlook and events occurring during the year.

The total charge of £1,639m was allocated against the following assets and liabilities: intangible assets £241m; non current trade and other receivables £913m; prepayments £52m; accrued income £41m; provisions £256m; £136m was allocated against a number of other balance sheet categories and the individual amounts are insignificant.

4. Specific items

The group separately identifies and discloses significant one off or unusual items (termed 'specific items'). This is consistent with the way that financial performance is measured by management and we believe it assists in providing a meaningful analysis of the trading results of the group. A definition of specific items is provided on page 79.

	2009 £m	2008 £m	2007 £m
Other operating income			
Net loss on sale of group undertakings[a]	13	10	5
Profit on sale of non current asset investments[b]	–	–	(2)
	13	**10**	**3**
Operating costs			
BT Global Services restructuring charges:			
– Networks and products rationalisation[c]	183	–	–
– People and property[c]	51	–	–
– Intangible asset impairments[c]	46	–	–
	280	**–**	**–**
Restructuring costs – group transformation and reorganisation activities[d]	65	402	–
Property rationalisation costs[e]	–	–	64
Creation of Openreach and delivery of the Undertakings[f]	–	53	30
Write off of circuit inventory and other working capital balances[g]	–	74	65
21CN asset impairment and related charges[h]	50	–	–
Costs associated with settlement of open tax years[i]	–	–	10
	395	**529**	**169**
Finance income			
Interest on settlement of open tax years[i]	**–**	**–**	**(139)**
Share of results of associates and joint ventures			
Reassessment of carrying value of associate[j]	(36)	–	–
Profit on disposal of associates and joint ventures[k]	–	(9)	(22)
	(36)	**(9)**	**(22)**
Net specific items charge before tax	**372**	**530**	**11**
Tax credit in respect of settlement of open tax years[i]	–	(40)	(938)
Tax credit on re-measurement of deferred tax[l]	–	(154)	–
Tax credit on specific items above	(43)	(149)	(41)
Net specific items charge (credit) after tax	**329**	**187**	**(968)**

[a] In 2009, a £13m (2008: £10m, 2007: £5m) loss on disposal arose from exiting a business. The £10m and £5m losses in 2008 and 2007, respectively, relate principally to the disposal of the group's satellite broadcast business.
[b] In 2007, the group disposed of some non-core investments, resulting in a profit of £2m (2009 and 2008: £nil).
[c] In 2009, as a result of the BT Global Services operational review, the group recorded restructuring charges of £280m (2008 and 2007: £nil). The main components of the specific item are set out below.
– Networks and products rationalisation – as a result of the decision to rationalise the legacy networks, including the associated systems and processes, a charge of £183m (2008 and 2007: £nil) has been recognised, representing the difference between the recoverable amount and the carrying value of the assets impacted by the rationalisation.
– People and property – a charge of £51m (2008 and 2007: £nil) has been recognised, relating to the costs associated with the restructuring and rationalisation of people and property. The main components of the restructuring charge are leaver costs and property exit costs.
– Intangible asset impairments – a charge of £46m (2008 and 2007: £nil) has been recognised, reflecting the costs associated with rationalising the services that are offered to customers and the brands under which customers are served. The charge includes the write down of brands and other acquired intangible assets that no longer have an economic value to the business.
[d] In 2009 and 2008, respectively, the group incurred costs of £65m and £402m (2007: £nil) in respect of the group's transformation and reorganisation activities. The costs mainly comprised leaver costs, property exit and transformation programme costs.
[e] In 2007, the group incurred property rationalisation costs of £64m (2009 and 2008: £nil).
[f] In 2008 and 2007, respectively, charges of £53m and £30m (2009: £nil) were recognised in relation to further estimated costs required to create Openreach and deliver the Undertakings agreed with Ofcom, particularly with regard to the introduction of equivalence of input systems.
[g] In 2008 and 2007, respectively, the group recorded charges of £74m and £65m (2009: £nil), recognised as a result of the completion of a review of circuit inventory and other working capital balances.
[h] In 2009, a £50m (2008 and 2007: £nil) charge was recognised, comprising £31m of asset impairments and £19m of associated costs, following the group's review of its 21CN programme and associated voice strategy in the light of the move to a customer-led roll out strategy and focus on next generation voice service developments of fibre based products.
[i] In 2008, the group agreed an outstanding tax matter relating to a business disposed of in 2001, the impact of which was a tax credit of £40m, and this closed all open items in relation to the settlement reached in 2007. In 2007, the group agreed the settlement of substantially all open UK tax matters relating to ten tax years up to and including 2004/05 with HM Revenue and Customs (HMRC). In 2007, the total impact of the settlement was a net credit of £1,067m, comprising a tax credit of £938m representing those elements of the tax charges previously recognised which were in excess of the final agreed liability, interest income of £139m and operating costs of £10m representing the costs associated with reaching this agreement.
[j] In 2009, a £36m credit (2008 and 2007: £nil) was recognised in respect of a reassessment of the value of the group's share of the net assets of an associated undertaking.
[k] In 2008 and 2007, respectively, profit on the sale of associates of £9m and £22m (2009: £nil) were recognised. In 2008, the £9m profit arose from the receipt of contingent consideration from the disposal of the group's interest in e-peopleserve. In 2007, the £22m profit arose from the disposal of 6% of the group's equity interest in the associate Tech Mahindra Limited.
[l] In 2008, a tax credit of £154m was recognised for the re-measurement of deferred tax balances as a result of the change in the UK statutory corporation tax rate from 30% to 28%, effective in 2009.

5. Finance expense and finance income

	2009 £m	2008 £m	2007 £m
Finance expense			
Interest on listed bonds, debentures and notes[a,b]	777	629	623
Interest on finance leases[a]	25	31	44
Interest on other borrowings[a]	130	159	58
Unwinding of discount on provisions[a]	3	3	3
Fair value loss on derivatives not in a designated hedge relationship[e]	29	41	4
Interest on pension scheme liabilities	2,308	2,028	1,872
Total finance expense[c,d]	**3,272**	**2,891**	**2,604**

a Calculated using the effective interest method unless otherwise stated below.
b Includes a net charge of £25m (2008: £77m, 2007: £67m) relating to fair value movements on derivatives recycled from the cash flow reserve.
c Includes a net charge of £39m (2008: net credit of £6m, 2007: net credit of £70m) relating to fair value movements arising on hedged items and a net credit of £39m (2008: net charge of £6m, 2007: net charge of £70m) relating to fair value movements arising on derivatives designated as fair value hedges.
d Includes a net charge of £2,161m (2008: net charge of £373m, 2007: net credit of £420m) relating to foreign exchange movements on loans and borrowings and a net credit of £2,161m (2008: net credit of £373m, 2007: net charge of £420m) relating to fair value movements on derivatives recycled from the cash flow reserve. The items generating this foreign exchange are in designated hedge relationships.
e Includes a loss of £nil (2008: £2m, 2007: £nil) recycled from the cash flow reserve arising on de-designation of derivatives from a hedge relationship.

	2009 £m	2008 £m	2007 £m
Finance income			
Income from listed investments			
Net gain on held for trading investments	–	–	6
Interest on available-for-sale investments	–	–	1
Other interest and similar income			
Interest on held for trading investments	–	–	39
Interest on available-for-sale investments	14	25	16
Interest on loans and receivables	17	40	17
Other interest and similar income[a]	–	–	139
Expected return on pension scheme assets	2,621	2,448	2,292
Total finance income[b]	**2,652**	**2,513**	**2,510**
Net finance expense	**620**	**378**	**94**

a 2007 includes £139m relating to interest on settlement of open tax matters disclosed as a specific item (see note 4).
b Includes a net charge of £nil (2008: £nil, 2007: £123m) relating to foreign exchange movements on investments and a net credit of £nil (2008: £nil, 2007: £123m) relating to fair value movements on derivatives recycled from the cash flow reserve. The items generating this foreign exchange are in designated hedge relationships.

6. Dividends

	2009		2008		2007	
	pence per share	£m	pence per share	£m	pence per share	£m
Final dividend paid in respect of the prior year	10.40	804	10.00	810	7.60	631
Interim dividend paid in respect of the current year	5.40	418	5.40	431	5.10	422
	15.80	**1,222**	**15.40**	**1,241**	**12.70**	**1,053**

The directors are proposing that a final dividend in respect of the year ended 31 March 2009 of 1.1p per share will be paid to shareholders on 7 September 2009, taking the full year proposed dividend in respect of the 2009 financial year to 6.5p (2008: 15.8p, 2007: 15.1p). This dividend is subject to approval by shareholders at the Annual General Meeting and therefore the liability of approximately £85m (2008: £805m) has not been included in these financial statements. The proposed dividend will be payable to all shareholders on the Register of Members on 14 August 2009.

7. Taxation

Analysis of taxation (credit) expense for the year

	2009 £m	2008 £m	2007 £m
United Kingdom			
Corporation tax at 28% (2008 and 2007: 30%)	–	214	256
Adjustments in respect of prior periods	(50)	18	(1,096)
Non UK taxation			
Current	48	42	25
Adjustments in respect of prior periods	(10)	(88)	38
Total current tax (credit) expense	**(12)**	**186**	**(777)**
Deferred tax			
Origination and reversal of temporary differences	(77)	78	367
Adjustments in respect of prior periods	36	(26)	42
Total deferred tax (credit) expense	**(41)**	**52**	**409**
Total taxation (credit) expense in the income statement	**(53)**	**238**	**(368)**

Factors affecting taxation (credit) expense

The taxation (credit) expense on the (loss) profit for the year differs from the amount computed by applying the corporation tax rate to the (loss) profit before taxation as a result of the following factors:

	2009		2008		2007	
	£m	%	£m	%	£m	%
(Loss) profit before taxation	**(134)**		**1,976**		**2,484**	
Notional taxation (credit) expense at UK rate of 28% (2008 and 2007: 30%)	(38)	28.0	592	30.0	745	30.0
Effects of:						
Non deductible depreciation and amortisation	27	(20.0)	23	1.1	4	0.1
Non (taxable) deductible non UK (profits) losses	(24)	17.9	(7)	(0.3)	9	0.4
(Lower) higher taxes on non UK profits	(9)	6.7	7	0.3	11	0.4
Higher (lower) taxes on gain on disposal of non current investments and group undertakings	4	(2.9)	–	–	(2)	(0.1)
Other deferred tax assets not recognised	5	(3.7)	(13)	(0.6)	–	–
Associates and joint ventures	(21)	15.7	(2)	(0.1)	(5)	(0.2)
Adjustments in respect of prior periods	(24)	17.9	(56)	(2.8)	(78)	(3.2)
Tax credit in respect of settlement of open tax years	–	–	(40)	(2.0)	(938)	(37.8)
Re-measurements of deferred tax balances at 28%	–	–	(154)	(7.8)	–	–
Other	27	(20.0)	(112)	(5.8)	(114)	(4.5)
Total taxation (credit) expense and effective tax rate	**(53)**	**39.6**	**238**	**12.0**	**(368)**	**(14.9)**
Specific items	43		343		979	
Total taxation (credit) expense before specific items and effective rate on profit before specific items	**(10)**	**(4.2)**	**581**	**23.2**	**611**	**24.5**

7. Taxation continued

Tax on items taken directly to equity

	2009 £m	2008 £m	2007 £m
Current tax credit on exchange differences	–	(1)	–
Deferred tax credit on exchange differences	(64)	–	–
Deferred tax expense relating to losses on cash flow hedges	164	29	62
Deferred tax (credit) expense on actuarial (loss) gain relating to retirement benefit obligations	(1,959)	804	424
Total taxation on items taken to statement of recognised income and expense	**(1,859)**	**832**	**486**
Current tax credit relating to share based payments	–	(17)	(12)
Deferred tax expense (credit) relating to share based payments	12	62	(70)
Total taxation on items taken directly to equity[a]	**(1,847)**	**877**	**404**

[a] 2008 includes a £50m expense arising from the re-measurement of deferred tax balances at 28%.

8. (Loss) earnings per share

Basic (loss) earnings per share is calculated by dividing the loss attributable to equity shareholders by the weighted average number of shares in issue after deducting the group's shares held by employee share ownership trusts and treasury shares.

In calculating the diluted (loss) earnings per share, share options outstanding and other potential ordinary shares have been taken into account where the impact of these is dilutive. Options over 158m shares (2008: 58m shares, 2007: 12m shares) were excluded from the calculation of the total diluted number of shares as the impact of these is antidilutive.

The weighted average number of shares in the years was:

	2009 millions of shares	2008 millions of shares	2007 millions of shares
Basic	**7,724**	**8,066**	**8,293**
Dilutive ordinary shares from share options	5	106	123
Dilutive ordinary shares held in trust	42	51	63
Total diluted	**7,771**	**8,223**	**8,479**
(Loss) profit attributable to equity shareholders of the parent (£m)	(83)	1,737	2,850
Basic (loss) earnings per share (p)	(1.1)p	21.5p	34.4p
Diluted (loss) earnings per share (p)	(1.1)p	21.1p	33.6p

8. (Loss) earnings per share continued

Basic (loss) earnings per share before specific items, and the per share impact of individual specific items, is as follows:

	2009		2008		2007	
	pence per share	£m	pence per share	£m	pence per share	£m
Per share impact of specific items:						
Net loss on sale of group undertakings	(0.2)	(13)	(0.1)	(10)	–	(5)
Profit on sale of non current asset investments	–	–	–	–	–	2
BT Global Services restructuring charges						
– Networks and products rationalisation	(2.4)	(183)	–	–	–	–
– People and property	(0.7)	(51)	–	–	–	–
– Intangible asset impairment	(0.6)	(46)	–	–	–	–
21CN asset impairment and related charges	(0.7)	(50)	–	–	–	–
Restructuring costs	(0.8)	(65)	(5.0)	(402)	–	–
Property rationalisation costs	–	–	–	–	(0.8)	(64)
Reassessment of carrying value of associate	0.5	36	–	–	–	–
Creation of Openreach and delivery of the Undertakings	–	–	(0.7)	(53)	(0.4)	(30)
Write off of circuit inventory and other working capital balances	–	–	(0.9)	(74)	(0.8)	(65)
Costs associated with settlement of open tax years	–	–	–	–	(0.1)	(10)
Interest on settlement of open tax years	–	–	–	–	1.7	139
Profit on disposal of associates and joint ventures	–	–	0.1	9	0.3	22
Tax credit in respect of settlement of open tax years	–	–	0.5	40	11.3	938
Tax credit on re-measurement of deferred tax	–	–	1.9	154	–	–
Tax credit on specific items	0.6	43	1.8	149	0.5	41
Basic (loss) earnings per share/(loss) profit for the year attributable to specific items[a]	**(4.3)**	**(329)**	**(2.4)**	**(187)**	**11.7**	**968**
Basic earnings per share/profit for the year before specific items[a]	**3.2**	**246**	**23.9**	**1,924**	**22.7**	**1,882**
Basic (loss) earnings per share/(loss) profit for the year[a]	**(1.1)**	**(83)**	**21.5**	**1,737**	**34.4**	**2,850**
Diluted (loss) earnings per share/(loss) profit for the year attributable to specific items[a]	**(4.3)**	**(329)**	**(2.3)**	**(187)**	**11.4**	**968**
Diluted earnings per share/profit for the year before specific items[a]	**3.2**	**246**	**23.4**	**1,924**	**22.2**	**1,882**
Diluted (loss) earnings per share/(loss) profit for the year[a]	**(1.1)**	**(83)**	**21.1**	**1,737**	**33.6**	**2,850**

[a] The stated (loss) profit amounts are the component of the total (loss) profit which is attributable to equity shareholders excluding minority interests.

9. Cash and cash equivalents

	2009 £m	2008 £m
Cash at bank and in hand	**562**	**732**
Cash equivalents		
Available-for-sale		
Listed	7	8
Loans and receivables		
UK deposits	711	671
European deposits	5	24
US deposits	15	–
Total cash equivalents	**738**	**703**
Total cash and cash equivalents	**1,300**	**1,435**
Bank overdrafts	(185)	(261)
Cash and cash equivalents per the cash flow statement	**1,115**	**1,174**

The group has cross undertaking guarantee facilities across certain bank accounts which allow a legally enforceable right of set off of the relevant cash and overdraft balances on bank accounts included within each scheme. Included within overdrafts at 31 March 2009 were balances of £160m (2008: £256m) which had a legally enforceable right of set off against cash balances of £96m (2008: £112m). These balances have not been netted above as settlement is not intended to take place simultaneously or on a net basis.

The credit rating of counterparties with which cash equivalents were held is detailed in the table below.

	2009 £m	2008 £m
Moody's/S&P credit rating[a]		
Aaa/AAA	90	40
Aa1/AA+	–	30
Aa2/AA	124	447
Aa3/AA–	271	181
A1/A+	251	3
A2/A	2	2
Total cash equivalents	**738**	**703**

[a] Cash equivalent balances with counterparties have been classified at the lower of their Moody's and S&P rating.

Cash and cash equivalents are primarily fixed rate financial assets held for periods ranging from one day to three months.

10. Net debt

Net debt consists of loans and other borrowings less current asset investments and cash and cash equivalents. Loans and other borrowings are measured at the net proceeds raised, adjusted to amortise any discount over the term of the debt. For the purpose of this analysis, current asset investments and cash and cash equivalents are measured at the lower of cost and net realisable value. Currency denominated balances within net debt are translated to Sterling at swapped rates where hedged.

This definition of net debt measures balances at the expected value of future undiscounted cash flows due to arise on maturity of financial instruments and removes the balance sheet adjustments made from the re-measurement of hedged risks under fair value hedges and the use of the effective interest method as required by IAS 39. In addition, the gross balances are adjusted to take account of netting arrangements amounting to £160m (2008: £256m). Net debt is a non-GAAP measure since it is not defined in accordance with IFRS, but it is a key indicator used by management in order to assess operational performance and balance sheet strength.

	2009 £m	2008 £m
Analysis of net debt		
Loans and other borrowings (current and non current)	13,907	11,342
Less:		
Cash and cash equivalents	(1,300)	(1,435)
Current asset investments	(163)	(440)
	12,444	**9,467**
Adjustments:		
To retranslate currency denominated balances at swapped rates where hedged	(1,766)	241
To recognise borrowings at net proceeds adjusted to amortise discount and investments at the lower of cost and net realisable value	(317)	(248)
Net debt at 31 March	**10,361**	**9,460**

After allocating the element of the adjustments which impacts loans and other borrowings, as defined above, gross debt at 31 March 2009 was £11,663m (2008: £11,076m).

	2009 £m	2008 £m
Reconciliation of movement in net debt		
Net debt at 1 April	9,460	7,914
Increase in net debt resulting from cash flows	921	1,510
Net debt assumed or issued on acquisitions	(2)	35
Currency movements	(36)	(4)
Other non-cash movements	18	5
Net debt at 31 March	**10,361**	**9,460**

11. Intangible assets

	Goodwill £m	Telecommunication licences and other £m	Brands, customer relationships and technology £m	Computer software[a] £m	Total £m
Cost					
At 1 April 2007	819	185	118	2,487	3,609
Additions	–	–	–	826	826
Acquisitions through business combinations[b]	320	6	68	2	396
Disposals and adjustments	(62)	36	62	(181)	(145)
Exchange differences	11	39	–	43	93
At 1 April 2008	1,088	266	248	3,177	4,779
Additions	–	–	–	839	839
Acquisitions through business combinations	131	–	46	1	178
Disposals and adjustments	1	(3)	20	(237)	(219)
Impairments[b]	–	–	(26)	(309)	(335)
Exchange differences	269	44	88	82	483
At 31 March 2009	**1,489**	**307**	**376**	**3,553**	**5,725**
Amortisation					
At 1 April 2007		59	24	942	1,025
Charge for the year		12	43	424	479
Acquisitions through business combinations		2	–	2	4
Disposals and adjustments		31	–	(164)	(133)
Exchange differences		17	–	32	49
At 1 April 2008		121	67	1,236	1,424
Charge for the year		14	62	565	641
Acquisitions through business combinations		–	–	1	1
Disposals and adjustments		(1)	–	(234)	(235)
Exchange differences		22	24	60	106
At 31 March 2009		**156**	**153**	**1,628**	**1,937**
Carrying amount					
At 31 March 2009	**1,489**	**151**	**223**	**1,925**	**3,788**
At 31 March 2008	1,088	145	181	1,941	3,355

[a] Computer software includes additions in 2009 of £529m (2008: £720m) in respect of internally developed computer software.
[b] Impairment charges of £335m were recognised in 2009, comprising BT Global Services restructuring charges of £81m, BT Global Services contract and financial review charges of £241m (see note 3) and £13m in relation to the review of the 21CN programme and associated voice strategy. All impairment losses were recognised in the income statement. The recoverable amount of the impaired assets is equal to their value in use.

Impairment tests of goodwill

The group performs an annual goodwill impairment test, based on its cash generating units (CGUs). The CGUs that have associated goodwill are BT Global Services and the following business units within BT Retail: Consumer, BT Business, BT Ireland and Enterprises. These are the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other groups of assets, and to which goodwill is allocated. Goodwill is allocated to the group's CGUs as follows:

		BT Retail				
	BT Global Services £m	Consumer £m	BT Business £m	BT Ireland £m	Enterprises £m	Total £m
At 1 April 2007	691	57	–	16	55	819
Acquisitions through business combinations	273	13	34	–	–	320
Disposals and adjustments	(39)	(23)	–	–	–	(62)
Exchange differences	11	–	–	–	–	11
At 1 April 2008	936	47	34	16	55	1,088
Acquisitions through business combinations	37	10	10	–	74	131
Disposals and adjustments	1	–	–	–	–	1
Exchange differences	252	–	–	–	17	269
At 31 March 2009	**1,226**	**57**	**44**	**16**	**146**	**1,489**

11. Intangible assets continued

The key assumptions used in performing the impairment test, by CGU, are shown below:

		BT Retail			
	BT Global Services	Consumer	BT Business	BT Ireland	Enterprises
Method of determining recoverable amount	Value in use	Value in use	Value in use	Value in use	Value in use
Discount rate	11.1%	11.1%	11.1%	11.1%	11.1%
Perpetuity growth rate	2.5%	2.0%	2.0%	2.0%	2.0%

Recoverable amount

The value in use of each CGU is determined using cash flow projections derived from financial plans approved by the board covering a three year period and a further two years approved by the line of business and group senior management team. They reflect management's expectations of revenue, EBITDA and operating cash flows, based on past experience and future expectations, for performance of the businesses. The forecast operating cash flows for BT Global Services include the benefits expected to arise from the revised operating model and the cash outflows associated with the restructuring charges. Cash flows beyond the five year period have been extrapolated using perpetuity growth rates.

Discount rate

The discount rates applied to the cash flow forecasts are derived from the group's pre-tax weighted average cost of capital, adjusted for the different risk profiles of the individual CGUs. The assumptions used in the calculation of the group's weighted average cost of capital are benchmarked to externally available data.

Growth rates

The perpetuity growth rates are determined based on the long-term historical growth rates of the regions in which the CGU operates, and they reflect an assessment of the long-term growth prospects of the sector in which the CGU operates. The growth rates have been benchmarked against external data for the relevant markets. None of the growth rates applied exceed the long-term historical average growth rates for those markets or sectors. The growth rates used in 2009 are higher than those used in previous years and are more closely aligned to management's assessment for each CGU's long-term growth.

Sensitivities

For the BT Retail CGUs, significant headroom exists in each CGU and, based on the sensitivity analysis performed, no reasonably possible changes in the assumptions would cause the carrying amount of the CGUs to exceed their recoverable amount.

For BT Global Services, the value in use exceeds the carrying value of the CGU by approximately £850m. The following changes in assumptions would cause the recoverable amount to fall below the carrying value:

- a reduction in the perpetuity growth rate from the 2.5% assumption applied to a revised assumption of 0.0% or less;
- an increase in the discount rate from the 11.1% assumption applied to a revised assumption of 12.9% or more;
- a reduction in the projected operating cash flows across five years by 18% or more. A reduction in forecast operating cash flows could arise from the lower than anticipated realisation of cost savings from the revised operating model, particularly in the next two financial years.

12. Property, plant and equipment

	Land and buildings[a,b] £m	Network infrastructure equipment[b] £m	Other[c] £m	Assets in course of construction £m	Total £m
Cost					
At 1 April 2007	1,115	36,849	2,220	1,013	41,197
Additions	18	250	225	2,031	2,524
Acquisition through business combinations	12	237	35	–	284
Transfers	39	1,794	2	(1,835)	–
Disposals and adjustments	(5)	(409)	(371)	9	(776)
Exchange differences	30	396	83	22	531
At 1 April 2008	1,209	39,117	2,194	1,240	43,760
Additions	8	238	187	1,813	2,246
Acquisition through business combinations	1	3	6	–	10
Transfers	16	2,045	19	(2,080)	–
Disposals and adjustments	3	(373)	(169)	(71)	(610)
Impairments[d]	–	(121)	(8)	(18)	(147)
Exchange differences	58	652	149	26	885
At 31 March 2009	**1,295**	**41,561**	**2,378**	**910**	**46,144**
Accumulated depreciation					
At 1 April 2007	426	24,233	1,577	–	26,236
Charge for the year	55	2,127	228	–	2,410
Acquisition through business combinations	5	167	26	–	198
Disposals and adjustments	(4)	(404)	(327)	–	(735)
Exchange differences	18	281	70	–	369
At 1 April 2008	500	26,404	1,574	–	28,478
Charge for the year	56	1,928	265	–	2,249
Acquisition through business combinations	1	3	4	–	8
Disposals and adjustments	4	(395)	(209)	–	(600)
Exchange differences	30	476	126	–	632
At 31 March 2009	**591**	**28,416**	**1,760**	**–**	**30,767**
Carrying amount					
At 31 March 2009	**704**	**13,145**	**618**	**910**	**15,377**
Engineering stores	–	–	–	28	28
Total at 31 March 2009	**704**	**13,145**	**618**	**938**	**15,405**
At 31 March 2008	709	12,713	620	1,240	15,282
Engineering stores	–	–	–	25	25
Total at 31 March 2008	709	12,713	620	1,265	15,307

	2009 £m	2008 £m
[a] The carrying amount of land and buildings, including leasehold improvements, comprised:		
Freehold	451	412
Long leases (over 50 years unexpired)	30	21
Short leases	223	276
Total land and buildings	**704**	**709**

[b] The carrying amount of the group's property, plant and equipment includes an amount of £216m (2008: £275m) in respect of assets held under finance leases, comprising land and buildings of £76m (2008: £80m) and network infrastructure and equipment of £140m (2008: £195m). The depreciation charge on those assets for 2009 was £49m (2008: £86m), comprising land and buildings of £3m (2008: £3m) and network infrastructure and equipment of £46m (2008: £83m).

[c] Other mainly comprises motor vehicles and computers.

[d] Impairment charges of £147m were recognised in 2009, comprising BT Global Services restructuring charges of £129m and £18m in relation to the review of the 21CN programme and associated voice strategy. All impairment losses were recognised in the income statement. The recoverable amount of the impaired assets is equal to their value in use.

12. Property, plant and equipment continued

	2009 £m	2008 £m
Additions to property, plant and equipment comprised:		
Land and buildings	23	33
Network infrastructure and equipment		
Transmission equipment	1,067	1,117
Exchange equipment	44	83
Other network equipment	899	1,060
Other		
Computers and office equipment	140	181
Motor vehicles and other	73	50
Total additions to property, plant and equipment	**2,246**	**2,524**
Increase (decrease) in engineering stores	3	(11)
Total additions	**2,249**	**2,513**

13. Investments

	2009 £m	2008 £m
Non current assets		
Available-for-sale	23	15
Loans and receivables	32	16
	55	**31**
Current assets		
Available-for-sale	153	439
Loans and receivables	10	1
	163	**440**

The credit rating of counterparties with which current asset investments were held is detailed in the table below.

	2009 £m	2008 £m
Moody's/S&P credit rating[a]		
Aaa/AAA	153	440
A1/A+	10	–
Total current asset investments	**163**	**440**

[a] Current asset investment balances with counterparties have been classified at the lower of their Moody's and S&P rating.

The majority of current asset investments are held for periods ranging from one day to one year.

Available-for-sale

Available-for-sale current assets consist of floating rate liquidity fund deposits denominated in Sterling of £97m (2008: £335m), in Euros of £43m (2008: £81m) and in US dollars of £13m (2008: £23m), which are immediately accessible to the group to manage liquidity.

Loans and receivables

Loans and receivables mainly consist of fixed term loans denominated in Sterling with a fixed coupon.

14. Associates and joint ventures

	2009			2008		
	Associates £m	Joint ventures £m	Total £m	Associates £m	Joint ventures £m	Total £m
Non current assets	41	7	48	28	5	33
Current assets	168	4	172	129	4	133
Current liabilities	(86)	(2)	(88)	(78)	(3)	(81)
Share of net assets	**123**	**9**	**132**	**79**	**6**	**85**
Revenue	308	15	323	172	17	189
Expenses	(262)	(15)	(277)	(173)	(23)	(196)
Taxation	(7)	–	(7)	(4)	–	(4)
Share of post tax results before specific items	**39**	**–**	**39**	**(5)**	**(6)**	**(11)**
Specific items – reassessment of carrying value of associate (note 4)	36	–	36	–	–	–
Share of post tax results	**75**	**–**	**75**	**(5)**	**(6)**	**(11)**

	Associates £m	Joint ventures £m	Total £m
At 1 April 2007	61	6	67
Share of post tax loss	(5)	(6)	(11)
Dividends received	(1)	(1)	(2)
Acquisitions	12	–	12
Disposals	(1)	(1)	(2)
Exchange differences and other	13	8	21
At 1 April 2008	79	6	85
Share of post tax profit	75	–	75
Dividends received	(6)	–	(6)
Exchange differences and other	(25)	3	(22)
At 31 March 2009	**123**	**9**	**132**

At 31 March 2009, the fair value of the group's investments in associates and joint ventures for which published price quotations are available was £153m (2008: £378m). Details of the group's principal associate at 31 March 2009 are set out on page 141.

15. Trade and other receivables

	2009 £m	2008 £m
Current		
Trade receivables	1,966	1,853
Prepayments	825	981
Accrued income	1,135	1,340
Other receivables	259	275
	4,185	**4,449**

	2009 £m	2008 £m
Non current		
Other assets[a,b]	**322**	**854**

[a] Other assets mainly represents costs relating to the initial set up, transition or transformation phase of long-term networked IT services contracts.
[b] The decrease in Other assets in 2009 reflects the impact of the BT Global Services contract and financial review charges (see note 3).

15. Trade and other receivables continued

Trade receivables are stated after deducting allowances for doubtful debts, as follows:

	2009 £m	2008 £m
At 1 April	209	280
Amounts charged to the income statement	151	114
Utilised in the year	(139)	(211)
Acquisitions	4	7
Exchange differences	21	19
At 31 March	**246**	**209**

Trade receivables are continuously monitored and allowances applied against trade receivables consist of both specific impairments and collective impairments based on the group's historical loss experiences for the relevant aged category and taking into account general economic conditions. Historical loss experience allowances are calculated by line of business in order to reflect the specific nature of the customers relevant to that line of business.

Trade receivables are due as follows:

			Past due and not specifically impaired:				
	Not past due £m	Trade receivables specifically impaired net of provision £m	Between 0 and 3 months £m	Between 3 and 6 months £m	Between 6 and 12 months £m	Over 12 months £m	Total £m
2009	**1,263**	**1**	**474**	**90**	**65**	**73**	**1,966**
2008	1,090	3	571	63	73	53	1,853

Gross trade receivables which have been specifically impaired amounted to £30m (2008: £68m)

Trade receivables not past due and accrued income are analysed below by line of business. The nature of customers associated with each segment is provided in note 1.

Trade receivables not past due	2009 £m	2008 £m
BT Global Services	878	793
BT Retail	308	224
BT Wholesale	64	68
Openreach	3	–
Other	10	5
Total trade receivables not past due	**1,263**	**1,090**

Accrued income	2009 £m	2008 £m
BT Global Services	635	797
BT Retail	274	309
BT Wholesale	195	176
Openreach	26	42
Other	5	16
Total accrued income	**1,135**	**1,340**

Given the broad and varied nature of the group's customer base, the analysis of trade receivables not past due and accrued income by line of business is considered the most appropriate disclosure of credit concentrations. Cash collateral held against trade and other receivables amounted to £23m (2008: £29m).

16. Loans and other borrowings

	2009 £m	2008 £m
Sterling 6.375% bonds June 2037[b]	521	521
US dollar 9.125% (2008: 9.125%) notes December 2030 (minimum 8.625%[a])[b]	1,914	1,380
Sterling 5.75% bonds December 2028	608	608
Sterling 3.5% indexed linked notes April 2025	330	315
Sterling 8.625% bonds March 2020	298	298
US dollar 5.95% bonds January 2018[b]	777	563
Sterling 6.625% bonds June 2017[b]	524	524
Sterling 8.0% (2008: 8.0%) notes December 2016 (minimum 7.5%[a])	713	712
Euro 6.5% bonds July 2015[b]	973	–
Euro 5.25% bonds June 2014[b]	723	622
Euro 5.25% bonds January 2013[b]	935	812
US dollar 5.15% bonds January 2013[b]	599	434
Euro 7.375% (2008: 7.375%) notes February 2011 (minimum 6.875%[a])[b]	1,051	903
US dollar 8.625% (2008: 8.625%) notes December 2010 (minimum 8.125%[a])[b]	2,074	1,496
US dollar 8.765% bonds August 2009[c]	149	110
Total listed bonds, debentures and notes	**12,189**	**9,298**
Finance leases	**332**	**320**
Commercial paper[b,d]	715	107
Sterling 6.35% bank loan due August 2012	312	312
Sterling 10.4% bank loan due September 2009	140	140
Sterling floating rate note 2008-2009 (average effective interest rate 4.2% (2008: 5.2%))	28	36
Sterling floating rate loan 2008-2009 (average effective interest rate in 2008: 6.7%)	–	402
Sterling floating rate loan 2008 (average effective interest rate in 2008: 6.3%)	–	351
Sterling floating rate loan 2008 (average effective interest rate in 2008: 6.4%)	–	100
Other loans 2008-2012	6	15
Bank overdrafts (of which £160m (2008: £256m) had a legally enforceable right of set off – see note 9)	185	261
Total other loans and borrowings	**1,386**	**1,724**
Total loans and other borrowings	**13,907**	**11,342**

[a] The interest rate payable on these notes will be subject to adjustment from time to time if either Moody's or Standard and Poor's (S&P) reduce the rating ascribed to the group's senior unsecured debt below A3 in the case of Moody's or below A– in the case of S&P. In this event, the interest rate payable on the notes and the spread applicable to the floating notes will be increased by 0.25% for each ratings category adjustment by each rating agency. In addition, if Moody's or S&P subsequently increase the ratings ascribed to the group's senior unsecured debt, then the interest rate then payable on notes and the spread applicable to the floating notes will be decreased by 0.25% for each rating category upgrade by each rating agency, but in no event will the interest rate be reduced below the minimum interest rate reflected in the above table. On 31 March 2009, both Moody's and S&P downgraded BT's credit rating by one ratings category to Baa2 and BBB, respectively. At the next coupon date in the 2010 financial year, the rate payable on these bonds will therefore increase by 0.5 percentage points.
[b] Hedged in a designated cash flow hedge.
[c] Hedged in a designated cash flow and fair value hedge.
[d] Commercial paper is denominated in Sterling of £209m (2008: £nil) and Euros of £506m (2008: £107m).

The interest rates payable on loans and borrowings disclosed above reflect the coupons on underlying issued loans and borrowings and not the interest rates achieved through applying associated currency and interest rate swaps in hedge arrangements.

The carrying values disclosed above reflect balances at amortised cost adjusted for deferred and current fair value adjustments to the relevant loans or borrowings' hedged risk in a fair value hedge. This does not reflect the final principal repayment that will arise after taking account of the relevant derivatives in hedging relationships which is reflected in the table below. Apart from finance leases, all borrowings as at 31 March 2009 and 2008 were unsecured.

	2009			2008		
	Carrying amount £m	Effect of hedging and interest[a] £m	Principal repayments at hedged rates £m	Carrying amount £m	Effect of hedging and interest[a] £m	Principal repayments at hedged rates £m
Repayments fall due as follows:						
Within one year, or on demand	**1,542**	**(352)**	**1,190**	**1,524**	**(264)**	**1,260**
Between one and two years	3,098	(551)	2,547	278	22	300
Between two and three years	10	–	10	2,363	157	2,520
Between three and four years	1,829	(380)	1,449	12	–	12
Between four and five years	14	–	14	1,536	(86)	1,450
After five years	7,412	(799)	6,613	5,626	164	5,790
Total due for repayment after more than one year	**12,363**	**(1,730)**	**10,633**	**9,815**	**257**	**10,072**
Total repayments	**13,905**	**(2,082)**	**11,823**	**11,339**	**(7)**	**11,332**
Fair value adjustments for hedged risk	2			3		
Total loans and other borrowings	**13,907**			**11,342**		

[a] Adjustments for hedging and interest reflect the impact of the currency element of derivatives and adjust the repayments to exclude interest recognised in the carrying amount.

16. Loans and other borrowings continued

As noted on page 110, the principal repayments of loans and borrowings at hedged rates amounted to £11,823m (2008: £11,332m). The table below reflects the currency risk and interest cash flow and fair value risk associated with these loans and borrowings after the impact of hedging.

	2009			2008		
	Fixed rate interest £m	Floating rate interest £m	Total £m	Fixed rate interest £m	Floating rate interest £m	Total £m
Sterling	10,239	1,373	11,612	9,442	1,718	11,160
Euro	–	204	204	–	172	172
US dollar	–	2	2	–	–	–
Other	–	5	5	–	–	–
Total	**10,239**	**1,584**	**11,823**	**9,442**	**1,890**	**11,332**
Weighted average effective fixed interest rate						
Sterling	8.1%			8.2%		

The floating rate loans and borrowings bear interest rates fixed in advance for periods ranging from one day to one year, primarily by reference to LIBOR and EURIBOR quoted rates.

	2009	2008	2009	2008
	Minimum lease payments £m	£m	Repayment of outstanding lease obligations £m	£m
Amounts payable under finance leases:				
Within one year	32	35	14	19
In the second to fifth years inclusive	135	127	66	63
After five years	456	450	252	238
	623	**612**	**332**	**320**
Less: future finance charges	(291)	(292)	–	–
Total finance lease obligations	**332**	**320**	**332**	**320**

Assets held under finance leases mainly consist of buildings and network assets. The group's obligations under finance leases are secured by the lessors' title to the leased assets.

17. Derivative financial instruments

	2009		2008	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Interest rate swaps – cash flow hedge	–	446	1	207
Other interest rate swaps	107	316	25	239
Cross currency swaps – cash flow hedge	2,541	1	340	605
Cross currency swaps – fair value hedge	18	–	–	20
Forward foreign exchange contracts – cash flow hedge	27	1	20	1
Other forward foreign exchange contracts	7	2	1	–
Credit default swaps	–	1	–	–
	2,700	**767**	**387**	**1,072**
Analysed as:				
Current	244	340	77	267
Non current	2,456	427	310	805
	2,700	**767**	**387**	**1,072**

17. Derivative financial instruments continued

The credit rating of counterparties with which derivative financial assets were held is detailed in the table below.

	2009 £m	2008 £m
Moody's/S&P credit rating[a]		
Aa1/AA+	–	2
Aa2/AA	200	330
Aa3/AA–	650	–
A1/A+	1,030	–
A2/A	719	55
A3/A–	101	–
	2,700	**387**

[a] Derivative financial instrument balances with counterparties have been classified at the lower of their Moody's and S&P rating.

In the 2009 financial year, derivative financial assets were held with 19 counterparties (2008: 13 counterparties). After applying the legal right of set off under the group's International Swaps and Derivative Association (ISDA) documentation, the group had a net exposure to derivative counterparties of £2,282m (2008: £152m). Of this, 85% (2008: 100%) was with six counterparties (2008: five). Details of hedges in which the derivative financial instruments are utilised are disclosed in note 33.

18. Trade and other payables

	2009 £m	2008 £m
Current		
Trade payables	4,367	4,410
Other taxation and social security	489	548
Other payables	527	838
Accrued expenses	460	580
Deferred income	1,372	1,215
	7,215	**7,591**

	2009 £m	2008 £m
Non current		
Other payables	718	636
Deferred income	76	71
	794	**707**

Non current payables mainly relate to operating lease liabilities and deferred gains on a prior period sale and finance leaseback transaction.

19. Provisions

	Property provisions[a] £m	Other provisions[b] £m	Total £m
At 1 April 2008	210	136	346
Charged to the income statement	8	433	441
Unwind of discount	3	–	3
Utilised in the year	(49)	(41)	(90)
Exchange differences	–	20	20
At 31 March 2009	**172**	**548**	**720**

	2009 £m	2008 £m
Analysed as:		
Current	254	81
Non current	466	265
	720	**346**

[a] Property provisions mainly comprise onerous lease provisions on rationalisation of the group's property portfolio. The provisions will be utilised over the remaining lease periods, which range from 1 to 23 years. Financial liabilities comprise £166m (2008: £127m) of this balance.
[b] Other provisions includes:
– Amounts provided in relation to networks and products rationalisation and people and property restructuring and rationalisation, following the 2009 BT Global Services operational review. The cash outflows associated with this provision are expected to occur over the next two years, the majority of which will be in 2010.
– Amounts provided in relation to the BT Global Services contract and financial review (see note 3), which will be utilised as the obligations are settled, the timing of which is currently uncertain.
– Amounts provided for the estimated incremental and directly attributable costs arising from the group's obligation to set up Openreach and deliver the Undertakings, which will be utilised over two years.
– Amounts provided for legal or constructive obligations arising from insurance claims and litigation, which will be utilised as the obligations are settled.

20. Deferred taxation

	Excess capital allowances £m	Retirement benefit obligations £m	Share based payments £m	Other £m	Total £m
At 1 April 2007	2,096	(117)	(128)	(285)	1,566
Charge to the income statement (excluding impact of change in tax rate)	10	121	11	64	206
Charge to equity (excluding impact of change in tax rate)	–	768	57	20	845
Impact of change in tax rate to 28%	(137)	6	9	18	(104)
At 31 March 2008	1,969	778	(51)	(183)	2,513
Deferred tax asset	–	–	–	–	–
Deferred tax liability	1,969	778	(51)	(183)	2,513
At 31 March 2008	1,969	778	(51)	(183)	2,513
(Credit) charge to the income statement	(158)	78	32	7	(41)
(Credit) charge to equity	–	(1,959)	12	100	(1,847)
At 31 March 2009	**1,811**	**(1,103)**	**(7)**	**(76)**	**625**
Deferred tax asset	–	(1,103)	–	–	(1,103)
Deferred tax liability	1,811	–	(7)	(76)	1,728
At 31 March 2009	**1,811**	**(1,103)**	**(7)**	**(76)**	**625**

At 31 March 2009, all of the deferred tax asset of £1,103m (2008: £nil) is expected to be recovered after more than one year. At 31 March 2009, all of the deferred tax liability of £1,728m (2008: £2,513m) is expected to be settled after more than one year.

20. Deferred taxation continued

At 31 March 2009, the group had operating losses, capital losses and other temporary differences carried forward in respect of which no deferred tax assets were recognised amounting to £24.3bn (2008: £23.3bn). The group's capital losses and other temporary differences have no expiry date restrictions. The expiry date of operating losses carried forward is dependent upon the tax law of the various territories in which the losses arose. A summary of expiry dates for losses in respect of which restrictions apply is set out below:

	2009 £m	Expiry of losses
Restricted losses:		
Americas	271	2009-2029
Europe	1,875	2009-2024
Total restricted losses	**2,146**	
Unrestricted losses:		
Operating losses	3,410	No expiry
Capital losses	17,780	No expiry
Other	932	No expiry
Total unrestricted losses	**22,122**	
Total	**24,268**	

At the balance sheet date, the undistributed earnings of overseas subsidiaries was £10.1bn (2008: £10.6bn). No deferred tax liabilities have been recognised in respect of these unremitted earnings because the group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future. Temporary differences arising in connection with interests in associates and joint ventures for which deferred tax liabilities have not been recognised are insignificant.

21. Minority interests

	2009 £m	2008 £m
At 1 April	23	34
Share of profits	2	1
Disposals	(9)	(23)
Minority share of dividend paid	(1)	–
Acquisitions through business combinations	3	8
Exchange differences	9	3
At 31 March	**27**	**23**

22. Reconciliation of movements in equity

	2009 £m	2008 £m	2007 £m
Total equity at 1 April	5,432	4,272	1,607
(Loss) profit for the year	(83)	1,737	2,850
Dividends	(1,222)	(1,241)	(1,053)
Share based payments	33	55	71
Issue of shares	–	32	24
Net purchase of treasury shares	(63)	(1,529)	(284)
Exchange differences	683	210	(93)
Actuarial (losses) gains	(7,037)	2,621	1,409
Net fair value movements on cash flow hedges	570	163	163
Net fair value movements on available-for-sale assets	5	–	–
Tax on items taken directly to equity	1,847	(877)	(404)
Minority interests	4	(11)	(18)
Net movement in equity	**(5,263)**	**1,160**	**2,665**
Total equity at 31 March	**169**	**5,432**	**4,272**

23. Share capital

	Number of shares	Share capital[a] £m	Share premium[b] £m
At 1 April 2007	8,640,654,852	432	31
Arising on share issues	10,572,177	1	31
Cancelled[c]	(250,000,000)	(13)	–
At 1 April 2008	8,401,227,029	420	62
Cancelled[c]	(250,000,000)	(12)	–
At 31 March 2009	**8,151,227,029**	**408**	**62**

[a] The authorised share capital of the company throughout 2009 and 2008 was £13,463m, representing 269,260,253,468 ordinary shares of 5p each. The allotted, called up and fully paid ordinary share capital of the company at 31 March 2009 was £408m (2008: £420m), representing 8,151,227,029 (2008: 8,401,227,029) ordinary shares of 5p each. Of the authorised but unissued share capital at 31 March 2009, nil ordinary shares (2008: 21m) were reserved to meet options granted under employee share option schemes.

[b] The share premium account, representing the premium on allotment of shares, is not available for distribution. The movement in share premium arose, in 2008, from shares issued in consideration for the acquisition of Net 2S SA (a company which changed its name to BT Services SA on 1 April 2009), and from the excess of proceeds received on the exercise of share options versus the cost of treasury shares issued to satisfy those exercises.

[c] In 2009, the group cancelled 250,000,000 treasury shares (2008: 250,000,000) with a nominal value of £12m (2008: £13m).

24. Other reserves

	Treasury shares[a] £m	Cash flow reserve[b] £m	Available-for-sale reserve[c] £m	Translation reserve[d] £m	Merger reserve[e] £m	Total other reserves £m
At 1 April 2006	(600)	(78)	–	44	998	364
Exchange differences	–	–	–	(93)	–	(93)
Net purchase of treasury shares	(284)	–	–	–	–	(284)
Net fair value loss on cash flow hedges	–	(201)	–	–	–	(201)
Recognised in income and expense in the year	–	364	–	–	–	364
Tax on items taken directly to equity	–	(62)	–	–	–	(62)
At 1 April 2007	(884)	23	–	(49)	998	88
Exchange differences	–	–	–	210	–	210
Net purchase of treasury shares	(1,529)	–	–	–	–	(1,529)
Cancellation of treasury shares	570	–	–	–	–	570
Net fair value gain on cash flow hedges	–	446	–	–	–	446
Recognised in income and expense in the year	–	(294)	–	–	–	(294)
Reclassified and reported in non current assets	–	11	–	–	–	11
Tax on items taken directly to equity	–	(29)	–	–	–	(29)
At 1 April 2008	(1,843)	157	–	161	998	(527)
Exchange differences	–	–	–	683	–	683
Net purchase of treasury shares	(63)	–	–	–	–	(63)
Cancellation of treasury shares	797	–	–	–	–	797
Net fair value gain on cash flow hedges	–	2,719	–	–	–	2,719
Recognised in income and expense in the year	–	(2,144)	–	–	–	(2,144)
Reclassified and reported in non current assets	–	(5)	–	–	–	(5)
Gains on available-for-sale investments	–	–	5	–	–	5
Tax on items taken directly to equity	–	(164)	–	–	–	(164)
At 31 March 2009	**(1,109)**	**563**	**5**	**844**	**998**	**1,301**

[a] The treasury shares reserve is used to hold BT Group plc shares purchased by the group. During 2009, the company repurchased 142,608,225 (2008: 539,657,691, 2007: 147,550,000) of its own shares of 5p each, representing 2% (2008: 6%, 2007: 2%) of the called-up share capital, for consideration (including transaction costs) of £189m (2008: £1,626m, 2007: £404m). In addition, 90,626,518 shares (2008: 53,250,144, 2007: 66,719,600) were issued from treasury to satisfy obligations under employee share schemes and executive share awards at a cost of £126m (2008: £97m, 2007: £120m), and 250,000,000 treasury shares (2008: 250,000,000, 2007: nil) were cancelled at a cost of £797m (2008: £570m, 2007: £nil). At 31 March 2009, 409,226,885 shares (2008: 607,285,178, 2007: 290,047,231) with an aggregate nominal value of £20m (2008: £30m, 2007: £19m) were held as treasury shares at cost.

[b] The cash flow reserve is used to record the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

[c] The available-for-sale reserve is used to record the cumulative fair value gains and losses on available-for-sale financial assets. The cumulative gains and losses are recycled to the income statement on disposal of the assets. The gross gain in the year amounted to £5m (2008 and 2007: £nil).

[d] The translation reserve is used to record cumulative translation differences on the assets and liabilities of foreign operations. The cumulative translation differences are recycled to the income statement on disposal of the foreign operation.

[e] The merger reserve arose on the group reorganisation that occurred in November 2001 and represents the difference between the nominal value of shares in the new parent company, BT Group plc, and the aggregate of the share capital, share premium account and capital redemption reserve of the prior parent company, British Telecommunications plc.

25. Retained (loss) earnings

	2009 £m	2008 £m	2007 £m
At 1 April	5,439	3,685	750
(Loss) profit for the year	(83)	1,737	2,850
Dividends	(1,222)	(1,241)	(1,053)
Share based payments	33	55	71
Actuarial (loss) gain	(7,037)	2,621	1,409
Cancellation of treasury shares	(797)	(570)	–
Tax on items taken directly to equity	2,011	(848)	(342)
At 31 March	**(1,656)**	**5,439**	**3,685**

26. Related party transactions

Amounts paid to the group's retirement benefit plans are set out in note 29. There were a number of transactions during the year between the company and its subsidiary undertakings, which are eliminated on consolidation and therefore not disclosed.

Key management personnel are deemed to be the members of the Operating Committee. Of the seven (2008 and 2007: five) members of the Operating Committee, four (2008: four, 2007: five) were members of the Board. It is the Operating Committee which has responsibility for planning, directing and controlling the activities of the group. Key management personnel compensation is shown in the table below:

	2009 £m	2008 £m	2007 £m
Salaries and short-term benefits	6.8	7.0	6.5
Termination benefits	2.4	–	–
Post employment benefits	2.3	1.0	1.4
Share based payments	3.6	5.0	3.2
	15.1	**13.0**	**11.1**

More detailed information concerning directors' remuneration, shareholdings, pension entitlements, share options and other long-term incentive plans is shown in the audited part of the Report on directors' remuneration (pages 64 to 69), which forms part of the financial statements.

During 2009, the group purchased services in the normal course of business and on an arm's length basis from its principal associate, Tech Mahindra Limited. The net value of services purchased was £296m (2008: £305m, 2007: £178m) and the amount outstanding and payable for services at 31 March 2009 was £89m (2008: £125m, 2007: £97m). In 2008, a cash payment of £55m was received from Tech Mahindra Limited, representing income of £28m and a prepayment of £27m.

27. Financial commitments and contingent liabilities

Capital expenditure contracted for at the balance sheet date but not yet incurred was as follows:	2009 £m	2008 £m
Property, plant and equipment	414	639
Software	37	101
Total	**451**	**740**

Future minimum operating lease payments for the group were as follows:	2009 £m	2008 £m
Payable in the year ending 31 March:		
2009	–	469
2010	484	453
2011	455	432
2012	430	408
2013	403	388
2014	377	365
Thereafter	5,855	6,227
Total future minimum operating lease payments	**8,004**	**8,742**

Operating lease commitments were mainly in respect of land and buildings. Leases have an average term of 23 years (2008: 24 years) and rentals are fixed for an average of 23 years (2008: 24 years).

At 31 March 2009, other than as disclosed below, there were no contingent liabilities or guarantees other than those arising in the ordinary course of the group's business and on these no material losses are anticipated. The group has insurance cover to certain limits for major risks on property and major claims in connection with legal liabilities arising in the course of its operations. Otherwise, the group generally carries its own risks.

The group has provided guarantees relating to certain leases entered into by O_2 UK Limited prior to its demerger with O_2 on 19 November 2001. O_2 plc has given BT a counterindemnity for these guarantees. The maximum exposure is US$110m as at 31 March 2009 (2008: US$72m), approximately £77m (2008: £36m), although this could increase by a further US$399m (2008: US$402m), approximately £278m (2008: £202m), in the event of credit default in respect of amounts used to defease future lease obligations. The guarantee lasts until O_2 UK Limited has discharged all its obligations, which is expected to be when the lease ends on 30 January 2017.

The company does not believe there are any pending legal proceedings which would have a material adverse effect on the financial position or results of operations of the group.

There have been criminal proceedings in Italy against 21 defendants, including a former BT employee, in connection with the Italian UMTS (universal mobile telecommunication system) auction in 2000. Blu, in which BT held a minority interest, participated in that auction process. On 20 July 2005, the former BT employee was found not culpable of the fraud charge brought by the Rome Public Prosecutor. All the other defendants were also acquitted. The Public Prosecutor has appealed the court's decision. If the appeal is successful, BT could be held liable, with others, for any damages. The company has concluded that it would not be appropriate to make a provision in respect of any such claim.

The European Commission formally investigated the way the UK government set BT's property rates and those paid by Kingston Communications, and whether or not the Government complied with European Community Treaty rules on state aid. It concluded that no state aid had been granted. The Commission's decision has now been appealed, but the company continues to believe that any allegation of state aid is groundless, and that the appeal will not succeed.

28. Acquisitions

Year ended 31 March 2009	BT Global Services £m	BT Retail £m	Other £m	Total £m
Fair value of consideration	13	98	75	186
Less: fair value of net assets acquired	3	24	28	55
Goodwill arising	**10**	**74**	**47**	**131**
Consideration:				
Cash	13	98	65	176
Deferred consideration	–	–	10	10
Total	**13**	**98**	**75**	**186**
The outflow of cash and cash equivalents is as follows:				
Cash consideration	13	98	65	176
Less: cash acquired	1	3	5	9
	12	**95**	**60**	**167**

	BT Global Services			
Year ended 31 March 2008	Comsat International £m	Other £m	BT Retail £m	Total £m
Fair value of consideration	130	276	71	477
Less: fair value of net assets acquired	57	82	24	163
Goodwill arising	**73**	**194**	**47**	**314**
Consideration:				
Cash	125	204	63	392
Deferred consideration	5	50	8	63
Equity shares issued	–	22	–	22
Total	**130**	**276**	**71**	**477**
The outflow of cash and cash equivalents is as follows:				
Cash consideration	125	204	63	392
Less: cash acquired	3	17	3	23
	122	**187**	**60**	**369**

Year ended 31 March 2009

BT Global Services

On 31 July 2008 the group acquired 100% of Stemmer GmbH and SND GmbH which now form part of BT Global Services. The purchase consideration was £13m. The net assets acquired and the goodwill arising was as follows:

	Book value £m	Fair value adjustments £m	Fair value £m
Receivables	6	–	6
Cash and cash equivalents	1	–	1
Payables	(4)	–	(4)
Net assets acquired	**3**	**–**	**3**
Goodwill			**10**
Total consideration			**13**

The fair value adjustments relating to this acquisition were provisional at 31 March 2009 and will be finalised during the 2010 financial year. The goodwill comprises principally the assembled workforce and forecast synergies.

From the date of acquisition, these acquisitions have contributed revenue of £26m and a net profit of £1m to the group's results. If the acquisitions had occurred on 1 April 2008, the group's revenue would have been higher by £10m and profit for the year would have been lower by £1m.

28. Acquisitions continued

BT Retail

During the year, the group acquired 100% of the issued share capital of Wire One Holdings Inc (Wire One, acquired 31 May 2008) and Ufindus Ltd (Ufindus, acquired 9 July 2008) for a total consideration of £98m. These acquisitions now form part of the Enterprises cash generating unit. The combined net assets acquired in these transactions and the goodwill arising is as follows:

	Book value £m	Fair value adjustments £m	Fair value £m
Intangible assets	2	21	23
Property, plant and equipment	2	–	2
Receivables	20	(1)	19
Cash and cash equivalents	3	–	3
Payables	(22)	(1)	(23)
Net assets acquired	**5**	**19**	**24**
Goodwill			**74**
Total consideration			**98**

Intangible assets recognised in respect of these acquisitions comprise customer relationships, brand names and proprietary technology. Goodwill arising on these acquisitions principally relates to anticipated cost and revenue synergies and the assembled workforce.

From the date of acquisition, these acquisitions have contributed revenue of £86m and a net profit of £10m to the group's results. If the acquisitions had occurred on 1 April 2008, the group's revenue would have been higher by £15m and profit for the year would have been higher by £1m.

Other

During the year, the group acquired 100% of the issued share capital of Moorhouse Consulting (Moorhouse, acquired 11 August 2008) and Ribbit Corporation (Ribbit, acquired 29 July 2008), for a total consideration of £75m including £10m of deferred, contingent consideration. These acquisitions now form part of BT Design, which is reported within 'Other'. For the purposes of the goodwill impairment test the goodwill arising on these acquisitions has been assigned to the cash generating units expected to benefit from the synergies of the acquisitions. The combined net assets acquired in these transactions and the goodwill arising is as follows:

	Book value £m	Fair value adjustments £m	Fair value £m
Intangible assets	–	25	25
Receivables	2	–	2
Cash and cash equivalents	5	–	5
Payables	(4)	–	(4)
Net assets acquired	**3**	**25**	**28**
Goodwill			**47**
Total consideration			**75**

Intangible assets recognised in respect of these acquisitions comprise internally developed technology. The fair value adjustments relating to the acquisition of Ribbit were provisional at 31 March 2009 and will be finalised during the 2010 financial year. Goodwill arising on these acquisitions principally relates to cost savings and other synergies expected to be delivered post acquisition.

From the date of acquisition, these acquisitions have contributed revenue of £7m and net loss of £7m to the group's results. If the acquisitions had occurred on 1 April 2008, the group's revenue would have been higher by £3m and profit for the year would have been lower by £1m.

28. Acquisitions continued

Year ended 31 March 2008

BT Global Services

Comsat International

On 14 June 2007, the group acquired Comsat International Inc (Comsat International) through the purchase of 100% of the issued share capital of its parent company, CI Holding Corporation. The total purchase consideration was £130m, including £5m deferred, contingent consideration. The net assets acquired in the transaction and the goodwill arising are as follows:

	Book value £m	Fair value adjustments £m	Fair value £m
Intangible assets	–	11	11
Property, plant and equipment	70	1	71
Other non current assets	4	–	4
Receivables	31	–	31
Cash and cash equivalents	3	–	3
Payables	(58)	(5)	(63)
Net assets acquired	**50**	**7**	**57**
Goodwill			**73**
Total consideration			**130**

Intangible assets recognised in respect of Comsat International comprise customer relationships and a brand. Goodwill represents Comsat's geographic presence and capabilities, as well as the assembled workforce. During 2009, the determination of fair values has been finalised. No adjustments have been made to the balances previously reported.

Other

During 2008, the group acquired a number of other subsidiary undertakings that now form part of BT Global Services. These acquisitions principally included Frontline Technologies Corporation Limited, i2i Enterprise Private Limited, Net 2S SA and I.NET SpA (I.NET). The total purchase consideration paid for these subsidiaries was £276m, including £50m deferred, contingent consideration. The group acquired 100% of each company, with the exception of Net 2S SA, where the group had acquired 91% of the issued share capital at 31 March 2008, and I.NET where the group increased its holding by 25% to 90% of the issued share capital in the year. An element of the purchase consideration for Net 2S SA was satisfied through the issue of shares in BT Group plc. A total of 10,572,177 shares were issued, with a fair value of £22m. The fair value of the shares issued was determined by reference to the BT Group plc share price on the date the shares were issued. In 2009, the group increased its holding in Net 2S SA to 98.9%. The combined net assets acquired in these transactions and the goodwill arising is as follows:

	Book value £m	Fair value adjustments £m	Fair value £m
Intangible assets	4	48	52
Property, plant and equipment	15	(4)	11
Associates and joint ventures	14	–	14
Receivables	112	(6)	106
Cash and cash equivalents	17	–	17
Payables	(130)	(1)	(131)
Minority interest	14	(1)	13
Net assets acquired	**46**	**36**	**82**
Goodwill			**194**
Total consideration			**276**

Intangible assets recognised in respect of these acquisitions comprise customer relationships, brands and proprietary technology. Goodwill principally represents the geographical presence and capabilities of the acquired companies, as well as the assembled workforce and anticipated synergies. During 2009, the determination of fair value in respect of these acquisitions has been finalised and adjustments have been made to the balances previously reported. Prior year balances have not been restated as the amount of the adjustment is not significant to the group.

28. Acquisitions continued

BT Retail

During 2008, the group acquired a number of smaller subsidiary undertakings that now form part of BT Retail. These acquisitions include principally, Lynx Technology Holdings Limited, Basilica Group Limited and Brightview plc. The total purchase consideration paid for these subsidiaries was £71m, including £8m deferred, contingent consideration. The group acquired 100% of each company. The combined net assets acquired in these transactions and the goodwill arising is as follows:

	Book value £m	Fair value adjustments £m	Fair value £m
Intangible assets	–	23	23
Property, plant and equipment	4	–	4
Receivables	22	(1)	21
Cash and cash equivalents	3	–	3
Payables	(25)	(2)	(27)
Net assets acquired	**4**	**20**	**24**
Goodwill			**47**
Total consideration			**71**

Intangible assets recognised in respect of these acquisitions comprise customer relationships and brand names. Goodwill arising on these acquisitions principally relates to anticipated cost and revenue synergies and the assembled workforce. During 2009, the determination of fair value in respect of these acquisitions has been finalised. No adjustments have been made to the balances previously reported.

29. Retirement benefit plans

Background

The group offers retirement benefit plans to its employees. The group's main scheme, the BT Pension Scheme (BTPS), is a defined benefit scheme. This scheme has been closed to new entrants since 31 March 2001 when it was replaced by a defined contribution scheme, the BT Retirement Plan (BTRP). On 1 April 2009 BT set up the BT Retirement Saving Scheme, a contract based defined contribution arrangement to which BTRP members are being invited to transfer their accumulated assets. The total pension cost of the group for the year, included within staff costs, was £544m (2008: £626m, 2007: £643m). The total cost associated with the group's defined benefit pension schemes was £459m (2008: £576m, 2007: £600m).

Defined contribution schemes

The income statement charge in respect of defined contribution schemes represents the contribution payable by the group based upon a fixed percentage of employees' pay. The total pension cost for the year in respect of the group's main defined contribution scheme was £47m (2008: £37m, 2007: £28m) and £4m (2008: £3m, 2007: £3m) of contributions were outstanding at 31 March 2009.

Defined benefit schemes

BT Pension Scheme Trustees Limited administers and manages the scheme on behalf of the members in accordance with the terms of the Trust Deed of the scheme and relevant legislation. Under the terms of the trust deed of the BTPS, there are nine trustee directors appointed by the group, five of which appointments are made with the agreement of the relevant trade unions, including the Chairman of the Trustees. Four trustee directors other than the Chairman are appointed by BT on the nomination of the relevant trade unions. Two of the trustee directors will normally hold senior positions within the group, and two will normally hold (or have held) senior positions in commerce or industry. Subject to there being an appropriately qualified candidate, there should be at least one current pensioner or deferred pensioner of the BTPS as one of the trustee directors. Trustee directors are appointed for a three-year term, but are then eligible for re-appointment.

Measurement of scheme assets and liabilities – IAS 19

Scheme assets are measured at the bid market value at the balance sheet date. The liabilities of the BTPS are measured by discounting the best estimate of future cash flows to be paid out by the scheme using the projected unit method. Estimated future cash flows are discounted at the current rate of return on high quality corporate bonds of an equivalent term to the liability. Actuarial gains and losses are recognised in full in the year in which they occur in the statement of recognised income and expense.

29. Retirement benefit plans continued

The financial assumptions used to measure the net pension obligation of the BTPS at 31 March 2009 are as follows:

	Real rates (per annum)			Nominal rates (per annum)		
	2009 %	2008 %	2007 %	**2009** %	2008 %	2007 %
Rate used to discount liabilities	3.84	3.24	2.28	6.85	6.85	5.35
Average future increases in wages and salaries	–	0.75[a]	0.75[a]	2.90	4.28[a]	3.77[a]
Average increase in pensions in payment and deferred pensions	–	–	–	2.90	3.50	3.00
Inflation – average increase in retail price index	–	–	–	2.90	3.50	3.00

[a] There is a short-term reduction in the real salary growth assumption to 0.5% for the first three years.

The average life expectancy assumptions, after retirement at 60 years of age, are as follows:

	2009 Number of years	2008 Number of years
Male in lower pay bracket	24.8	22.8
Male in higher pay bracket	27.1	25.2
Female	27.7	25.7
Future improvement every 10 years	1.0	1.0

Amounts recognised in respect of defined benefit schemes

The net pension (obligation) asset is set out below:

	2009			2008		
	Assets £m	Present value of liabilities £m	Asset (obligation) £m	Assets £m	Present value of liabilities £m	Asset (obligation) £m
BTPS	29,227	(33,070)	(3,843)	37,331	(34,444)	2,887
Other schemes	126	(256)	(130)	117	(225)	(108)
	29,353	**(33,326)**	**(3,973)**	**37,448**	**(34,669)**	**2,779**
Deferred tax asset (liability)			1,103			(778)
Net pension (obligation) asset			**(2,870)**			**2,001**

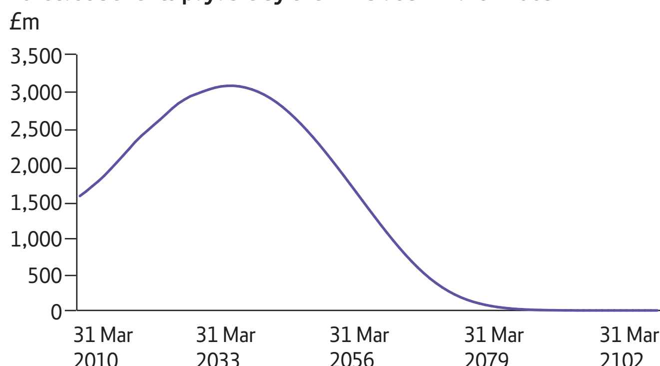
Amounts recognised in the income statement in respect of the group's pension schemes are as follows:

	2009 £m	2008 £m	2007 £m
Current service cost (including defined contribution schemes)	544	626	643
Total operating charge	**544**	**626**	**643**
Expected return on pension scheme assets	(2,621)	(2,448)	(2,292)
Interest on pension scheme liabilities	2,308	2,028	1,872
Net finance income	**(313)**	**(420)**	**(420)**
Total amount charged to the income statement	**231**	**206**	**223**

29. Retirement benefit plans continued

The present value of the obligation is derived from long-term cash flow projections and is thus inherently uncertain. The benefits payable by the BTPS are expected to be paid as follows:

Forecast benefits payable by the BTPS at 31 March 2009



An analysis of actuarial gains and losses and the actual return on plan assets is shown below:

	2009 £m	2008 £m	2007 £m
Actuarial (loss) gain recognised in the year	(7,037)	2,621	1,409
Cumulative actuarial (losses) gains	(591)	6,446	3,825
Actual return on plan assets	(6,830)	(124)	3,285

Changes in the present value of the defined benefit pension obligation are as follows:

	2009 £m	2008 £m
Opening defined benefit pension obligation	(34,669)	(38,779)
Current service cost	(459)	(576)
Interest cost	(2,308)	(2,028)
Contributions by employees	(18)	(19)
Actuarial gain	2,414	5,193
Business combinations	(4)	–
Benefits paid	1,741	1,559
Exchange differences	(23)	(19)
Closing defined benefit pension obligation	**(33,326)**	**(34,669)**

Changes in the fair value of plan assets are as follows:

	2009 £m	2008 £m
Opening fair value of plan assets	37,448	38,390
Expected return	2,621	2,448
Actuarial loss	(9,451)	(2,572)
Regular contributions by employer	441	388
Deficiency contributions by employer	–	320
Contributions by employees	18	19
Benefits paid	(1,741)	(1,559)
Exchange differences	17	14
Closing fair value of plan assets	**29,353**	**37,448**

29. Retirement benefit plans continued

The BTPS assets are invested in UK and overseas equities, UK and overseas properties, fixed interest and index linked securities, deposits and short-term investments. At 31 March 2009, the scheme's assets did not include any ordinary shares of the company. At 31 March 2008, 10m ordinary shares of the company were included within the scheme's assets, with a market value of £22m. The group occupies two properties owned by the BTPS scheme on which an annual rental of £0.1m is payable (2008: £0.1m).

The expected long-term rate of return and fair values of the assets of the BTPS at 31 March were:

	2009				2008			
	Expected long-term rate of return (per annum) %	Asset fair value £bn	Asset fair value %	Target %	Expected long-term rate of return (per annum) %	Asset fair value £bn	Asset fair value %	Target %
UK equities	8.5	3.2	11	11	8.5	6.2	17	23
Non-UK equities	8.5	5.9	20	22	8.5	10.5	28	28
Fixed-interest securities	5.9	6.6	22	20	5.7	7.1	19	15
Index-linked securities	4.0	4.4	15	15	4.6	3.6	10	10
Property	7.0	3.2	11	12	7.0	5.2	14	13
Alternative assets	7.0	5.2	18	20	7.2	2.9	8	11
Cash and other	3.5	0.8	3	–	5.0	1.8	4	–
	6.7	**29.3**	**100**	**100**	**7.1**	**37.3**	**100**	**100**

The assumption for the expected return on scheme assets is a weighted average based on the assumed expected return for each asset class and the proportions held of each asset class at the beginning of the year. The expected returns on fixed interest and index-linked securities are based on the gross redemption yields at the start of the year. Expected returns on equities, property and alternative asset classes are based on a combination of an estimate of the risk premium above yields on government bonds, consensus economic forecasts of future returns and historical returns. Alternative asset classes include commodities and hedge funds. The long-term expected rate of return on investments does not affect the level of the obligation but does affect the expected return on pension scheme assets within the net finance income.

The history of experience gains and losses are as follows:

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Present value of defined benefit obligation	(33,326)	(34,669)	(38,779)	(38,187)	(34,435)
Fair value of plan assets	29,353	37,448	38,390	35,640	29,628
Net pension (obligation) asset	(3,973)	2,779	(389)	(2,547)	(4,807)
Experience adjustment on defined benefit obligation – (loss) gain	(238)	(22)	190	(527)	(437)
Percentage of the present value of the defined benefit obligation	0.7%	0.1%	0.5%	1.4%	1.3%
Experience adjustment on plan assets – (loss) gain	(9,451)	(2,572)	993	4,855	1,664
Percentage of the plan assets	32.2%	6.9%	2.6%	13.6%	5.6%

The group expects to contribute approximately £775m to the BTPS in 2010, including deficiency contributions of £525m.

Sensitivity analysis of the principal assumptions used to measure BTPS scheme liabilities

The assumed discount rate, mortality rates and salary increases all have a significant effect on the measurement of scheme liabilities. The following table shows the sensitivity of the valuation to changes in these assumptions:

	Impact on liability Decrease/ (increase) £bn
0.25 percentage point increase to:	
– discount rate	1.2
– salary increases	(0.3)
Additional 1 year increase to life expectancy	(1.3)

29. Retirement benefit plans continued

Funding valuation and future funding obligations

A triennial valuation is carried out for the independent scheme trustees by a professionally qualified independent actuary, using the projected unit credit method. The purpose of the valuation is to design a funding plan to ensure that present and future contributions should be sufficient to meet future liabilities. The funding valuation is performed at 31 December as this is the financial year end of the BTPS.

The valuation basis for funding purposes is broadly as follows:

- scheme assets are valued at market value at the valuation date; and
- scheme liabilities are measured using a projected unit credit method and discounted to their present value.

The triennial funding valuation as at 31 December 2008 has reached an advanced stage of completion. As the parties are at an advanced stage compared to other scheme valuations and given the uncertain market conditions, the Pensions Regulator has indicated it wishes to discuss with the Trustee and BT the underlying assumptions and basis of the valuation. The Pensions Regulator has requested that the valuation and assumptions are not finalised or disclosed in advance of the completion of those discussions. BT, the Trustee and the Pensions Regulator are keen to complete this as soon as practicable.

BT and the Trustee agreed in May 2009 that deficit contributions of £525m per annum will be made in cash or in specie over the next three years. This agreement has been approved by the Pensions Regulator.

The last two triennial valuations were determined using the following long-term assumptions:

	Real rates (per annum)		Nominal rates (per annum)	
	2005 valuation %	2002 valuation %	2005 valuation %	2002 valuation %
Discount rate				
Pre retirement liabilities	3.06		5.84	
Post retirement liabilities	1.79		4.54	
Return on existing assets, relative to market values		4.52		7.13
(after allowing for an annual increase in dividends of)		1.00		3.53
Return on future investments		4.00		6.60
Average increase in retail price index	–	–	2.70	2.50
Average future increases in wages and salaries	0.75	1.5[a]	3.47	4.04[a]
Average increase in pensions	–	–	2.70	2.50

[a] There is a short-term reduction in the real salary growth assumption to 1.25% for the first three years.

At 31 December 2005, the assets of the BTPS had a market value of £34.4bn (2002: £22.8bn) and were sufficient to cover 90.9% (2002: 91.6%) of the benefits accrued by that date. This represented a funding deficit of £3.4bn compared with £2.1bn at 31 December 2002. The funding valuation uses conservative assumptions. The market value of equity investments had increased and the investment income and contributions received by the scheme exceeded the benefits paid in the three years ended 31 December 2005. However, the deficit had not improved by the same amount as the assets because the liabilities included longer life expectancy assumptions and used a lower discount rate.

Under the 2005 valuation the ordinary contributions rate was 19.5% of pensionable salaries (including employee contributions of 6%) and deficit contributions were £280m per annum. In 2009, the group made regular contributions of £433m (2008: £380m). No deficit contributions were made in 2009 as they had been paid in advance during 2008. We expect the regular contribution rate to reduce as a result of the implementation of the future benefit changes, following the UK pensions review, with effect from 1 April 2009.

The intention is for there to be sufficient assets in the scheme to pay pensions now and in the future. Without any further contribution from the company, it is estimated that as at 31 December 2005, the assets of the scheme would have been sufficient to provide around 70% of the members' benefits with an insurance company.

If the group were to become insolvent, however, there are a number of additional protections available to members. Firstly, there is the Crown Guarantee which was granted when the group was privatised in 1984. This applies, on a winding up of the group, to pension entitlements for anyone who joined the scheme before 6 August 1984, and to payments to beneficiaries of such persons. Secondly, the Pension Protection Fund (PPF) may take over the scheme and pay certain benefits to members. There are limits on the amounts paid by the PPF and this would not give exactly the same benefits as those provided by the scheme.

Under the terms of the trust deed that governs the BTPS, the group is required to have a funding plan that should address the deficit over a maximum period of 20 years. The BTPS was closed to new entrants on 31 March 2001 and the age profile of active members will consequently increase. Under the projected unit credit method, the current service cost, as a proportion of the active members' pensionable salaries, is expected to increase as the members of the scheme approach retirement. Despite the scheme being closed to new entrants, the projected payment profile extends over more than 60 years.

30. Employees

	2009		2008		2007	
	Year end 000	Average 000	Year end 000	Average 000	Year end 000	Average 000
Number of employees in the group[a]:						
UK	86.5	89.5	91.3	93.0	92.8	92.4
Non UK	20.5	21.1	20.6	15.5	13.4	12.8
Total employees	**107.0**	**110.6**	**111.9**	**108.5**	**106.2**	**105.2**

	2009		2008		2007[a]	
	Year end 000	Average 000	Year end 000	Average 000	Year end 000	Average 000
Number of employees in the group[a]:						
BT Global Services	31.4	31.8	33.1	30.3	29.6	28.9
BT Retail	20.4	21.0	21.1	20.7	20.3	20.3
BT Wholesale	2.4	2.5	2.9	3.1	3.4	3.7
Openreach	32.2	33.1	33.6	33.8	33.3	32.1
Other	20.6	22.2	21.2	20.6	19.6	20.2
Total employees	**107.0**	**110.6**	**111.9**	**108.5**	**106.2**	**105.2**

[a] The numbers disclosed include both full and part time employees.

31. Share based payments

The total charge recognised in 2009 in respect of share based payments was £31m (2008: £73m, 2007: £93m).

The company has an employee share investment plan and savings-related share option plans for its employees and those of participating subsidiaries, further share option plans for selected employees and an employee stock purchase plan for employees in the United States. It also has several share plans for executives. All share based payment plans are equity settled and details of these plans and an analysis of the total charge by type of award is set out below.

	2009 £m	2008 £m	2007 £m
Employee Sharesave Plan	(3)	29	25
Allshare	2	2	26
Employee Stock Purchase Plan	–	1	1
Incentive Share Plan	18	26	18
Deferred Bonus Plan	12	12	13
Retention Share Plan	2	3	3
GSOP and GLOP	–	–	7
	31	**73**	**93**

Share Options

BT Group Employee Sharesave plans

There is an HMRC approved savings related share option plan, under which employees save on a monthly basis, over a three or five-year period, towards the purchase of shares at a fixed price determined when the option is granted. This price is usually set at a 20% discount to the market price for five year plans and 10% for three year plans. The options must be exercised within six months of maturity of the savings contract, otherwise they lapse. Similar plans operate for BT's overseas employees.

Employee Stock Purchase Plan

The BT Group Employee Stock Purchase Plan (ESPP), for employees in the US, enables participants to purchase American Depositary Shares (ADSs) quarterly at a price which is 85% of the fair market price of an ADS at the end of each quarterly purchase period. The sixth offer under the ESPP was cancelled in December 2008 as the market price of an ADS had been lower than the Initial Base Option Price for three consecutive quarters. The seventh offer under the ESPP which does not base the purchase price on the Initial Base Option Price, was launched in December 2008.

From 1 April 2008 to 31 March 2009, nil shares were transferred to participants out of treasury shares under the ESPP (from 15 May 2007 to 31 March 2008 1,596,480 shares (159,648 ADSs) were transferred to participants out of treasury shares under the ESPP).

31. Share based payments continued

The following are legacy option plans which are no longer operated by the group.

BT Group Global Share Option Plan (GSOP)

The options granted in previous years were exercisable on the third anniversary of the date of grant, subject to continued employment and meeting corporate performance targets. Options must be exercised within ten years of the grant date.

BT Group Legacy Option Plan (GLOP)

On the demerger of O2, BT's share option plans ceased to operate and were replaced by similar BT Group Employee Sharesave plans and the BT Group Global Share Option Plan. The BT Group Legacy Option Plan was launched on 17 December 2001 following the scheme of arrangement and demerger of O2 in November 2001, and is therefore outside the scope of IFRS 2. The options were exercisable subject to continued employment and meeting corporate performance targets. Options must be exercised within ten years of the original grant date.

Share Plans

Incentive Share Plan, Retention Share Plan and Deferred Bonus Plan

Under the BT Group Incentive Share Plan (ISP), participants are only entitled to these shares in full at the end of a three-year period if the company has met the relevant pre-determined corporate performance measure and if the participants are still employed by the group. The corporate performance measure is BT's total shareholder return (TSR) measured against a comparator group of companies from the European Telecom Sector at the beginning of the relevant performance period.

Under the BT Group Retention Share Plan (RSP), the length of retention period before awards vest is flexible. Awards may vest annually in tranches. The shares are transferred at the end of a specified period, only if the employee is still employed by the group.

Under the BT Group Deferred Bonus Plan (DBP) awards are granted annually to selected employees of the group. Shares in the company are transferred to participants at the end of three years if they continue to be employed by the group throughout that period.

In accordance with the terms of the ISP, RSP and DBP, dividends or dividend equivalents earned on shares during the conditional periods are reinvested in company shares for the potential benefit of the participants.

Employee Share Investment Plan (ESIP)

The ESIP is an HMRC approved plan that has been in operation since December 2001. It allows BT employees to buy shares with contributions of up to £1,500 per tax year out of gross pay (directshare) and allows BT to provide free shares to UK employees which are held in trust for at least three years (allshare). During 2009, 10.7m directshare shares (2008: 5.4m directshare shares), were purchased by the Trustee of the ESIP on behalf of 20,384 (2008: 19,603) employees at a total cost of £16.4m (2008: £15.8m). A further 3.3m shares (2008: 1.4m shares) were purchased by the Trustee by dividend reinvestment on behalf of 21,782 (2008: 22,136) allshare and directshare employee participants. At 31 March 2009, 75.9m shares (2008: 72.2m shares) were held in trust on behalf of 76,678 participants (2008: 81,560).

In 2008, allshare was replaced by free BT Total Broadband Option 3 for all BT employees in the UK. Employees outside the UK continue to receive awards of shares where practicable, otherwise they will receive awards equivalent to the value of free shares.

Share option plans

Activity relating to share options during 2009, 2008 and 2007 is shown below.

	Employee Sharesave			GSOP and GLOP		
Movement in the number of share options:	**2009 millions**	2008 millions	2007 millions	**2009 millions**	2008 millions	2007 millions
Outstanding at the beginning of the year	281	272	279	46	103	187
Granted	339	54	49	–	–	–
Forfeited	(390)	(15)	(12)	(3)	(10)	(9)
Exercised	(80)	(28)	(42)	(1)	(14)	(20)
Expired	(14)	(2)	(2)	–	(33)	(55)
Outstanding at the end of the year	**136**	**281**	**272**	**42**	**46**	**103**
Exercisable at the end of the year	**1**	**2**	**2**	**42**	**46**	**48**
Weighted average exercise price:						
Outstanding at the beginning of the year	180p	165p	166p	257p	227p	213p
Granted	135p	269p	185p	–	–	–
Forfeited	153p	208p	176p	199p	251p	222p
Exercised	155p	188p	199p	196p	198p	203p
Expired	178p	179p	179p	–	199p	189p
Outstanding at the end of the year	**160p**	**180p**	**165p**	**256p**	**257p**	**227p**
Exercisable at the end of the year	**195p**	**158p**	**210p**	**256p**	**257p**	**261p**

31. Share based payments continued

During 2009, the increase in the number of Sharesave option forfeitures reflects the impact of an additional UK Sharesave grant with exercise prices of 111p and 124p, being lower than other unvested Sharesave options. These options were granted in January 2009. A further UK Sharesave was subsequently launched in March 2009, and options were granted in April 2009 at exercise prices of 61p and 68p. This also increased the number of forfeitures towards the end of 2009.

The weighted average share price for options exercised during the year was 180p (2008: 293p, 2007: 265p). The following table summarises information relating to options outstanding and exercisable under all share option plans at 31 March 2009, together with their exercise prices and dates:

Normal dates of vesting and exercise (based on calendar years)	Exercise price per share	Number of outstanding options millions	Number of exercisable options millions
BT Group Employee Sharesave Plans			
2008	154p-192p	1	1
2009	146p–231p	46	–
2010	171p–294p	18	–
2011	137p–208p	16	–
2012	124p–262p	19	–
2013	185p	11	–
2014	111p	25	–
Total		**136**	**1**
BT Group Legacy Option Plan			
2001-2011	318p–648p	9	9
Total		**9**	**9**
BT Group Global Share Option Plan			
2004-2014	176p–199.5p	25	25
2005-2015	179p–263p	8	8
Total		**33**	**33**
Total options		**178**	**43**

The options outstanding under all share option plans at 31 March 2009, have weighted average remaining contractual lives as follows:

	Employee Sharesave				GSOP and GLOP		
Range of exercise prices	Weighted average exercise price	Number of outstanding options millions	Weighted average contractual remaining life	Range of exercise prices	Weighted average exercise price	Number of outstanding options millions	Weighted average contractual remaining life
100p – 199p	140p	117	32 months	150p-317p	198p	33	65 months
200p – 300p	231p	19	32 months	318p-650p	479p	9	20 months
Total		**136**				**42**	

Executive share plans

Movements in executive share plans during 2009 are shown below:

	Millions of shares			
	ISP	DBP	RSP	Total
At 1 April 2008	66.4	12.4	2.6	81.4
Awards granted	30.9	7.1	0.2	38.2
Awards vested	(5.3)	(4.2)	(1.4)	(10.9)
Awards lapsed	(24.6)	(1.4)	(0.1)	(26.1)
Dividend shares reinvested	7.8	1.6	0.2	9.6
At 31 March 2009	**75.2**	**15.5**	**1.5**	**92.2**

At 31 March 2009, 1.3m shares (2008: 2.1m) were held in trust and 90.9m shares (2008: 79.3m) were held in treasury for executive share plans.

31. Share based payments continued

Fair value

The following table summarises the fair values and key assumptions used for grants made under the Employee Sharesave plans and ISP in 2009, 2008 and 2007.

	2009		2008		2007	
	Employee Sharesave	ISP	Employee Sharesave	ISP	Employee Sharesave	ISP
Weighted average fair value	27p	47p	71p	182p	43p	127p
Weighted average share price	152p	199p	329p	306p	229p	230p
Weighted average exercise price	135p	–	269p	–	185p	–
Expected dividend yield	4.6%-6.4%	4.9%	5.5%	5.5%	5.5%	5.5%
Risk free rates	2.1%-5.5%	5.2%	5.8%	5.8%	5.0%	5.0%
Expected volatility	20.7%-28.4%	23.3%	22.0%	18.0%	17.0%	17.0%

Employee Sharesave grants, under the BT Group Employee Sharesave and the BT Group International Employee Sharesave option plans, are valued using a binomial option pricing model. Awards under the ISP are valued using Monte Carlo simulations. TSRs were generated for BT and the comparator group at the end of the three year performance period, using each company's volatility and dividend yield, as well as the cross correlation between pairs of stocks.

Volatility has been determined by reference to BT's historical volatility which is expected to reflect the BT share price in the future. An expected life of three months after vesting date is assumed for Employee Sharesave options and for all other awards the expected life is equal to the vesting period. The risk free interest rate is based on the UK gilt curve in effect at the time of the grant, for the expected life of the option or award.

The fair values for the RSP and DBP were determined using the middle market share price three days prior to the date of grant. The weighted average share price for RSP awards granted in 2009 was 151p (2008: 310p, 2007: 267p). The weighted average share price for DBP awards granted in 2009 was 203p (2008: 319p, 2007: 232p).

32. Audit and non-audit services

The following fees for audit and non-audit services were paid or are payable to the company's auditors, PricewaterhouseCoopers LLP, for the three years ended 31 March 2009.

	2009 £000	2008 £000	2007 £000
Audit services			
Fees payable to the company's auditor and its associates for the audit of parent company and consolidated accounts	2,831	2,990	3,100
Non-audit services			
Fees payable to the company's auditor and its associates for other services:			
– The audit of the company's subsidiaries pursuant to legislation	4,675	3,848	3,518
– Other services pursuant to legislation	1,211	1,590	1,212
– Tax services	1,247	727	763
– Services relating to corporate finance transactions	32	549	748
– All other services	887	527	23
	10,883	**10,231**	**9,364**

'*Audit Services*' represents fees payable for services in relation to the audit of the parent company and the consolidated accounts and also includes fees for reports under section 404 of the US Public Company Accounting Reform and Investor Protection Act of 2002 (Sarbanes-Oxley).

'*The audit of the company's subsidiaries pursuant to legislation*' represents fees payable for services in relation to the audit of the financial statements of subsidiary companies. The increase in 2009 includes the adverse impact of foreign exchange movements and an increase in relation to newly-acquired subsidiaries.

'*Other services pursuant to legislation*' represents fees payable for services in relation to other statutory filings or engagements that are required to be carried out by the appointed auditor. In particular, this includes fees for audit reports issued on the group's regulatory financial statements.

'*Tax Services*' represents fees payable for tax compliance and advisory services.

'*Services relating to corporate finance transactions*' represent fees payable in relation to due diligence work completed on acquisitions and disposals.

'*All other services*' represents fees payable for non-regulatory reporting on internal controls and other advice on accounting or financial matters.

The audit fee of the company was £41,000 (2008: £40,000, 2007: £38,600).

In order to maintain the independence of the external auditors, the Board has determined policies as to what non-audit services can be provided by the company's external auditors and the approval processes related to them. Under those policies, work of a consultancy nature will not be offered to the external auditors unless there are clear efficiencies and value-added benefits to the company.

33. Financial instruments and risk management

The group issues or holds financial instruments mainly to finance its operations; to finance corporate transactions such as dividends, share buy backs and acquisitions; for the temporary investment of short-term funds; and to manage the currency and interest rate risks arising from its operations and from its sources of finance. In addition, various financial instruments, for example trade receivables and trade payables, arise directly from the group's operations.

The group finances its operations primarily by a mixture of issued share capital, retained profits, deferred taxation, long-term and short-term borrowing, mainly using commercial paper supported by committed borrowing facilities. The group borrows in the major long-term bond markets in major currencies and typically, but not exclusively, these markets provide the most cost-effective means of long-term borrowing. The group uses derivative financial instruments primarily to manage its exposure to changes in interest and foreign exchange rates against these borrowings. The derivatives used for this purpose are principally interest rate swaps, cross currency swaps and forward currency contracts. The group also uses financial instruments to hedge some of its currency exposures arising from funding its overseas operations, acquisitions, overseas assets, liabilities and forward purchase commitments. The financial instruments used comprise forward currency contracts. The group does not hold or issue derivative financial instruments for trading purposes. All transactions in derivative financial instruments are undertaken to manage the risks arising from underlying business activities.

The group has a centralised treasury operation whose primary role is to manage liquidity, funding, investments and counterparty credit risk arising with financial institutions. The centralised treasury operation also manages the group's market risk exposures, including risks arising from volatility in currency and interest rates. The centralised treasury operation acts as a central bank to members of the group providing central deposit taking, funding and foreign exchange management services. Funding and deposit taking is usually provided in the functional currency of the relevant entity. The centralised treasury operation is not a profit centre and the objective is to manage risk at optimum cost.

The Board sets the policy for the group's centralised treasury operation and its activities are subject to a set of controls commensurate with the magnitude of the borrowings and investments and group wide exposures under its management. The Board has delegated its authority to operate these polices to a series of panels that are responsible for the management of key treasury risks and operations. Appointment to and removal from the key panels requires approval from two of the Chairman, the Chief Executive or the Group Finance Director. The key policies defined by the Board are highlighted in each of the sections below.

The financial risk management of exposures arising from trading related financial instruments, primarily trade receivables and trade payables, is through a series of policies and procedures set at a group and line of business level. Line of business management apply these policies and procedures and perform review processes to assess and manage financial risk exposures arising from these financial instruments.

There has been no change in the nature of the group's risk profile between 31 March 2009 and the date of these financial statements.

Interest rate risk management

The group has interest bearing financial assets and financial liabilities which may expose the group to either cash flow or fair value volatility. The group's policy, as prescribed by the Board, is to ensure that at least 70% of net debt is at fixed rates. Short-term interest rate management is delegated to the centralised treasury operation whilst long-term interest rate management decisions requires further approval from the Group Finance Director, Director Treasury, Tax and Risk Management or the Treasurer who have been delegated such authority by the Board.

In order to manage this profile, the group has entered into swap agreements with commercial banks and other institutions to vary the amounts and periods for which interest rates on borrowings are fixed. Under cross currency swaps, the group agrees with other parties to exchange, at specified intervals, US dollar and Euro fixed rates into either fixed or floating Sterling interest amounts calculated by reference to an agreed notional principal amount. Under Sterling interest rate swaps, the group agrees with other parties to exchange, at specified intervals, the differences between fixed rate and floating rate Sterling interest amounts calculated by reference to an agreed notional principal amount. The group primarily uses a combination of these derivatives to fix its interest rates.

The majority of the group's long-term borrowings have been, and are, subject to fixed Sterling interest rates after applying the impact of hedging instruments. Outstanding currency and interest rate swaps at 31 March 2009 are detailed in the 'Hedging activities' and 'Other derivatives' sections below.

At 31 March 2009, the group's fixed:floating interest rate profile, after hedging, on net debt was 99:1 (2008: 100:0).

The group is exposed to income statement and shareholders' equity volatility arising from changes in interest rates. To demonstrate this volatility, management have concluded that a 100 basis point increase (2008: 100 basis point increase) in interest rates and parallel shift in yield curves across Sterling, US dollar and Euro currencies is a reasonable benchmark for performing a sensitivity analysis. All adjustments to interest rates for the impacted financial instruments are assumed to take effect from the respective balance sheet date.

After the impact of hedging, the group's main exposure to interest rate volatility in the income statement arises from fair value movements on derivatives not in hedging relationships and on variable rate borrowings and investments which are largely influenced by Sterling interest rates. Trade payables, trade receivables and other financial instruments do not present a material exposure to interest rate volatility. With all other factors remaining constant and based on the composition of net debt at 31 March 2009, a 100 basis point increase (2008: 100 basis point increase) in Sterling interest rates would decrease the group's annual net finance expense by approximately £5m (2008: £5m).

33. Financial instruments and risk management continued

The group's main IFRS 7 defined exposure to interest rate volatility within shareholders' equity arises from fair value movements on derivatives held in the cash flow reserve. The derivatives have an underlying interest exposure to Sterling, Euro and US dollar rates. With all other factors remaining constant and based on the composition of derivatives included in the cash flow reserve at the balance sheet date, a 100 basis point increase (2008: 100 basis point increase) in interest rates in each of the currencies would impact equity, pre tax, as follows:

	2009 £m Charge (credit)	2008 £m Charge (credit)
Sterling interest rates	550	470
US dollar interest rates	(538)	(347)
Euro interest rates	(149)	(91)

The long-term debt instruments which the group issued in December 2000 and February 2001 both contained covenants providing that if the BT Group credit rating were downgraded below A3 in the case of Moody's or below A– in the case of Standard & Poor's (S&P), additional interest would accrue from the next coupon period at a rate of 0.25 percentage points for each ratings category adjustment by each ratings agency. In March 2009, both Moody's and S&P downgraded BT's credit rating to Baa2 and BBB, respectively. Prior to this financial year, S&P downgraded BT's credit rating to BBB plus in July 2006 and Moody's downgraded BT's credit rating to Baa1 in May 2001. Based on the total debt of £5.8bn outstanding on these instruments at 31 March 2009, BT's annual finance expense would increase by approximately £28m if BT's credit rating were to be downgraded by one credit rating category by both agencies below a long-term debt rating of Baa2/BBB. If BT's credit rating with each of Moody's and S&P were to be upgraded by one credit rating category the annual finance expense would be reduced by approximately £28m.

Foreign exchange risk management

The purpose of the group's foreign currency hedging activities is to protect the group from the risk that the eventual net inflows and net outflows will be adversely affected by changes in exchange rates. The Board policy for foreign exchange risk management defines the types of transactions which should normally be covered, including significant operational, funding and currency interest exposures, and the period over which cover should extend for the different types of transactions. Short-term foreign exchange management is delegated to the centralised treasury operation whilst long-term foreign exchange management decisions requires further approval from the Group Finance Director, Director Treasury, Tax and Risk Management or the Treasurer who have been delegated such authority by the Board. The policy delegates authority to the Director Treasury, Tax and Risk Management to take positions of up to £100m and for the Group Finance Director to take positions of up to £1bn.

A significant proportion of the group's current revenue is invoiced in Sterling, and a significant element of its operations and costs arise within the UK. The group's overseas operations generally trade and are funded in their functional currency which limits their exposure to foreign exchange volatility. The group's foreign currency borrowings, which totalled £9.9bn at 31 March 2009 (2008: £6.6bn), are used to finance its operations and have been predominantly swapped into Sterling using cross currency swaps. The group also enters into forward currency contracts to hedge foreign currency investments, interest expense, capital purchases and purchase and sale commitments on a selective basis. The commitments hedged are principally US dollar and Euro denominated. As a result, the group's exposure to foreign currency arises mainly on its non-UK subsidiary investments and on residual currency trading flows.

After hedging, with all other factors remaining constant and based on the composition of assets and liabilities at the balance sheet date, the group's exposure to foreign exchange volatility in the income statement from a 10% strengthening in Sterling against other currencies would result in a credit of approximately £20m in 2009 (2008: approximately £20m).

The group's main exposure to foreign exchange volatility within shareholders equity (excluding translation exposures) arises from fair value movements on derivatives held in the cash flow reserve. The majority of foreign exchange fluctuations in the cash flow reserve are recycled immediately to the income statement to match the hedged item and therefore the group's exposure to foreign exchange fluctuations in equity would be insignificant in both 2009 and 2008.

Outstanding cross currency swaps at 31 March 2009 are detailed in the 'Hedging activities' and 'Other derivatives' sections below.

Credit risk management

The group's exposure to credit risk arises from financial assets transacted by the centralised treasury operation (primarily derivatives, investments, cash and cash equivalents) and from its trading related receivables. For treasury related balances, the Board defined policy restricts exposure to any one counterparty by setting credit limits based on the credit quality as defined by Moody's and Standard and Poor's and by defining the types of financial instruments which may be transacted. The minimum credit ratings permitted with counterparties are A3/A– for long-term and P1/A1 for short-term investments. The centralised treasury operation continuously reviews the limits applied to counterparties and will adjust the limit according to the nature and credit standing of the counterparty up to the maximum allowable limit set by the Board. Management review significant utilisations on a regular basis to determine the adjustments required, if any, and actively manage any exposures which may arise. Where multiple transactions are undertaken with a single counterparty, or group of related counterparties, the group may enter into netting arrangements to reduce the group's exposure to credit risk. Currently the group makes use of standard International Swaps and Derivative Association (ISDA) documentation. In addition, where possible the group will seek a combination of a legal right of set off and net settlement. The group also seeks collateral or other security where it is considered necessary. During the 2009 financial year, the centralised treasury operation tightened the credit limits applied when investing with counterparties in response to market conditions and continued to monitor their credit quality and actively managed any exposures which arose.

33. Financial instruments and risk management continued

The maximum credit risk exposure of the group's financial assets at 31 March 2009 and 31 March 2008 was as follows:

	2009 £m	2008 £m
Derivative financial assets	2,700	387
Investments	218	471
Trade and other receivables[a]	3,101	3,193
Cash and cash equivalents	1,300	1,435
Total	**7,319**	**5,486**

[a] The carrying amount excludes £1,084m (2008: £1,256m) of current and £322m (2008: £854m) of non current trade and other receivables which relate to non-financial assets.

Note 17 discloses the credit concentration and credit quality of derivative financial assets. After applying a legal right of set off under the group's International Swaps and Derivative Association (ISDA) documentation, the group had a net exposure to derivative counterparties of £2,282m. Of this, 85% was with six counterparties. The majority of these derivatives are in designated cash flow hedges. With all other factors remaining constant and based on the composition of net derivative financial assets at 31 March 2009, a 100 basis point increase in yield curves across each of the ratings categories within which these derivative financial assets are classified would reduce their carrying values and impact equity, pre-tax, as follows:

	Impact of 100 basis point increase £m
Moody's/S&P credit rating	
Aa2/AA	(18)
Aa3/AA–	(21)
A1/A+	(92)
A2/A	(146)
A3/A–	–
	(277)

The credit quality of other treasury related financial assets is provided in notes 9 and 13.

The group's credit policy for trading related financial assets is applied and managed by each of the lines of business to ensure compliance. The policy requires that the creditworthiness and financial strength of customers is assessed at inception and on an ongoing basis. Payment terms are set in accordance with industry standards. The group will also enhance credit protection when appropriate, taking into consideration the customer's exposure to the group, by applying processes which include netting and off-setting, and requesting securities such as deposits, guarantees and letters of credit. The group has taken proactive steps to minimise the impact of adverse market conditions on trading related financial assets. The concentration of credit risk for trading balances of the group is provided in note 15 which analyses outstanding balances by line of business and reflects the nature of customers in each segment.

Liquidity risk management

The group ensures its liquidity is maintained by entering into short, medium and long-term financial instruments to support operational and other funding requirements. On at least an annual basis the Board reviews and approves the maximum long-term funding of the group and on an ongoing basis considers any related matters. Short and medium-term requirements are regularly reviewed and managed by the centralised treasury operation within the parameters of the policies set by the Board. The group's capital management policy is to target a solid investment grade credit rating whilst continuing to invest for the future and, with an efficient balance sheet.

The group's liquidity and funding management process includes projecting cash flows and considering the level of liquid assets in relation thereto, monitoring balance sheet liquidity and maintaining a diverse range of funding sources and back-up facilities. The Board reviews forecasts, including cash flow forecasts, on a quarterly basis. The centralised treasury operation reviews cash flows more frequently to assess the short and medium-term requirements. These assessments ensure the group responds to possible future cash constraints in a timely manner. Liquid assets surplus to immediate operating requirements of the group are generally invested and managed by the centralised treasury operation. Requests from group companies for operating finance are met whenever possible from central resources.

	2009 £m	2008 £m	2007 £m
Net debt (note 10)	**10,361**	9,460	7,914

During 2009, the group's net debt increased from £9.5bn to £10.4bn primarily driven by lower free cash flow being exceeded by dividend and share buy back payments. During 2009, debt amounting to £0.9bn matured consisting of Sterling floating rate notes. This was offset by new issuances of £1.5bn mainly consisting of a €1bn bond at 6.5% repayable in 2015, which was swapped into £0.8bn at an average annualised Sterling interest rate of 7.7%, and commercial paper. In addition, investments of £0.3bn matured. During 2008, the group's net debt increased from £7.9bn to £9.5bn primarily driven by the group's share buy back programme. During 2008, debt amounting to £1.9bn matured consisting of 2007 US dollar 7% notes, finance leases and commercial paper. This was more than offset by new issuances of £3.9bn mainly consisting of issuances through the group's European Medium Term Note and US Shelf programmes with maturities ranging between 2013 and 2037 and bank loans (see note 16).

33. Financial instruments and risk management continued

The group has a European Medium Term Note programme and a US Shelf registration in place of which €3.9bn and $6.9bn, respectively, have been utilised. During the 2009 and 2008 financial years the group issued commercial paper and held cash, cash equivalents and current asset investments in order to manage short-term liquidity requirements. At 31 March 2009, the group had an undrawn committed borrowing facility of up to £1,500m (2008: £1,500m). The facility is available for the period to January 2013. The group had an additional undrawn committed borrowing facility of £900m (2008: £935m), of which £800m (2008: £835m) was agreed in the 2009 financial year, with a further £100m being agreed after the balance sheet date in both 2009 and 2008. This facility is for a term of 364 days from March 2009 with a one-year term out.

Refinancing risk is managed by limiting the amount of borrowing that matures within any specified period and having appropriate strategies in place to manage refinancing needs as they arise. The group has no significant debt maturities until December 2010. At 31 March 2009, the group's credit rating was BBB with a stable outlook with Standard and Poor's, and Baa2 with negative outlook with Moody's (2008: BBB+/Baa1, both with stable outlook). After the balance sheet date, Fitch changed the group's credit rating to BBB with a stable outlook (2008: BBB+ with a stable outlook).

The group's remaining contractually agreed cash flows, including interest, associated with financial liabilities based on undiscounted cash flows are as follows:

Outflow (inflow)[d]	Carrying amount £m	Within one year, or on demand £m	Between one and two years £m	Between two and three years £m	Between three and four years £m	Between four and five years £m	After five years £m
2009							
Loans and borrowings	13,907						
Principal		1,227	3,098	10	1,829	14	7,412
Interest		906	900	649	650	550	5,333
Trade and other payables[a]	5,354	5,354	–	–	–	–	–
Provisions[b]	166	59	17	15	13	8	119
Derivative financial instrument liabilities analysed based on earliest payment date[c]							
Net settled	762	244	338	28	50	19	30
Gross settled	5						
Outflow		414	113	–	–	–	–
Inflow		(409)	(113)	–	–	–	–
Total		**7,795**	**4,353**	**702**	**2,542**	**591**	**12,894**
Derivative financial instrument liabilities analysed based on holding instrument to maturity							
Net settled	762	117	117	60	60	60	634
Gross settled	5						
Outflow		414	113	–	–	–	–
Inflow		(409)	(113)	–	–	–	–
2008							
Loans and borrowings	11,342						
Principal		1,278	274	2,362	13	1,537	5,646
Interest		743	696	659	478	480	4,700
Trade and other payables[a]	5,828	5,828	–	–	–	–	–
Provisions[b]	127	31	25	16	14	13	66
Derivative financial instrument liabilities analysed based on earliest payment date[c]							
Net settled	446	18	101	158	19	40	47
Gross settled	626						
Outflow		480	526	1,701	86	211	351
Inflow		(393)	(337)	(1,318)	(47)	(147)	(327)
Total		**7,985**	**1,285**	**3,578**	**563**	**2,134**	**10,483**
Derivative financial instrument liabilities analysed based on holding instrument to maturity							
Net settled	446	18	18	18	20	20	66
Gross settled	626						
Outflow		480	482	2,107	177	305	4,619
Inflow		(393)	(365)	(1,715)	(137)	(263)	(3,756)

a The carrying amount excludes £1,861m (2008: £1,763m) of current and £794m (2008: £707m) of non current trade and other payables which relate to non-financial liabilities.
b The carrying amount excludes £195m (2008: £50m) of current and £359m (2008: £169m) of non current provisions which relate to non-financial liabilities.
c Certain derivative financial instrument liabilities contain break clauses which, if exercised, require settlement of the derivative.
d Foreign currency related cash flows were translated at the closing rate as at the relevant reporting date. Future variable interest rate cash flows were calculated using the most recent rate applied at the relevant balance sheet date.

33. Financial instruments and risk management continued

Price risk management

The group has limited exposure to price risk.

Hedging activities

The group had outstanding hedging activities as at 31 March 2009 as follows:

				Derivative fair value				
Hedged item	Hedging instruments	Hedge type	Notional principal £m	Asset £m	Liability £m	Remaining term of hedging instruments	Weighted average interest rate on hedging instruments	Period over which forecast transaction arises
Euro and US dollar denominated borrowings[a]	Interest rate swaps	Cash flow	2,913	–	446	2 to 22 years	Sterling receivable at 3.0% Sterling payable at 5.9%	
	Cross currency swaps	Cash flow and fair value	7,227	2,559	1	5 months to 22 years	Euro receivable at 6.0% US dollar receivable at 7.7% Sterling payable at 7.2%	
Euro and US dollar step up interest on currency denominated borrowings[a]	Forward currency contracts	Cash flow	223	9	–	3 to 5 months rolling basis		22 years
Euro and US dollar commercial paper[a]	Forward currency contracts	Cash flow	490	17	–	Less than 3 months rolling basis		
Purchase of US dollar denominated fixed assets	Forward currency contracts	Cash flow	48	–	1	Less than 1 month		4 years
Euro deferred consideration on acquisition	Forward currency contracts	Cash flow	50	1	–	Less than 5 months		

[a] See note 16.

The group had outstanding hedging activities as at 31 March 2008 as follows:

				Derivative fair value				
Hedged item	Hedging instruments	Hedge type	Notional principal £m	Asset £m	Liability £m	Remaining term of hedging instruments	Weighted average interest rate on hedging instruments	Period over which forecast transaction arises
Euro and US dollar denominated borrowings[a]	Interest rate swaps	Cash flow	2,913	1	207	3 to 23 years	Sterling receivable at 6.1% Sterling payable at 5.9%	
	Cross currency swaps	Cash flow and fair value	6,433	340	625	1 to 23 years	Euro receivable at 5.9% US dollar receivable at 7.7% Sterling payable at 8.6%	
Euro and US dollar step up interest on currency denominated borrowings[a]	Forward currency contracts	Cash flow	182	6	–	3 to 5 months rolling basis		23 years
Euro and US dollar commercial paper[a]	Forward currency contracts	Cash flow	95	14	–	Less than 5 months rolling basis		
Purchase of US dollar denominated fixed assets	Forward currency contracts	Cash flow	115	–	1	Less than 1 month		5 years

[a] See note 16.

Other derivatives

At 31 March 2009, the group held certain foreign currency forward and interest rate swap contracts which were not in hedging relationships in accordance with IAS 39. Foreign currency forward contracts were economically hedging operational purchases and sales and had a notional principal amount of £533m for purchases of currency (2008: £295m) and had a maturity period of under nine months (2008: under nine months). Interest rate swaps not in hedging relationships under IAS 39 had a notional principal amount of £1.9bn (2008: £1.9bn) and mature between 2014 and 2030 (2008: 2014 and 2030). The interest receivable under these swap contracts is at a weighted average rate of 6% (2008: 6.9%) and interest payable is at a weighted average rate of 7.6% (2008: 8.5%). The volatility arising from these swaps is recognised through the income statement but is limited due to a natural offset in their fair value movements. The group entered into credit default swap contracts to economically hedge part of its US dollar denominated derivative financial assets. These contracts had a notional principal of $90m (2008: $nil) and mature within one year. The group entered into a low cost borrowing structure during the 2008 financial year which was marginally earnings positive after tax. The structure included a forward currency contract for the sale of currency with a notional principal of £512m which had matured by 31 March 2008 realising a loss of £26m.

33. Financial instruments and risk management continued

Fair value of financial instruments

The following table discloses the carrying amounts and fair values of all of the group's financial instruments which are not carried at an amount which approximates to their fair value on the balance sheet at 31 March 2009 and 2008. The carrying amounts are included in the group balance sheet under the indicated headings. The fair value of the financial instruments is the amount at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced liquidation or sale. The fair values of listed investments were estimated based on quoted market prices for those investments. The carrying amount of the short-term deposits and investments approximated to their fair values due to the short maturity of the investments held. The carrying amount of trade receivables and payables approximated to their fair values due to the short maturity of the amounts receivable and payable. The fair value of the group's bonds, debentures, notes, finance leases and other long-term borrowings has been estimated on the basis of quoted market prices for the same or similar issues with the same maturities where they existed, and on calculations of the present value of future cash flows using the appropriate discount rates in effect at the balance sheet dates, where market prices of similar issues did not exist. The fair value of the group's outstanding swaps and foreign exchange contracts were the estimated amounts, calculated using discounted cash flow models taking into account market rates of interest and foreign exchange at the balance sheet date.

	Carrying amount		Fair value	
	2009 £m	2008 £m	**2009** £m	2008 £m
Financial liabilities:				
Listed bonds, debentures and notes	12,189	9,298	11,384	9,436
Finance leases	332	320	366	347
Other loans and borrowings	1,386	1,724	1,338	1,690

GLOSSARY OF TERMS AND US EQUIVALENTS

Term used in UK Annual Report	US equivalent or definition
Accounts	Financial statements
Associates	Equity investees
Capital allowances	Tax depreciation
Capital redemption reserve	Other additional capital
Finance lease	Capital lease
Financial year	Fiscal year
Freehold	Ownership with absolute rights in perpetuity
Interests in associates and joint ventures	Securities of equity investees
Leaver costs	Termination benefits
Loans to associates and joint ventures	Indebtedness of equity investees not current
Own work capitalised	Costs of labour engaged in the construction of plant and equipment for internal use
Provision for doubtful debts	Allowance for bad and doubtful accounts receivable
Provisions	Long-term liabilities other than debt and specific accounts payable
Statement of recognised income and expense	Comprehensive income
Reserves	Shareholders' equity other than paid-up capital
Share premium account	Additional paid-in capital or paid-in surplus (not distributable)

REPORT OF THE INDEPENDENT AUDITORS – PARENT COMPANY

Independent auditors' report to the members of BT Group plc (the 'company')

We have audited the parent company financial statements of BT Group plc for the year ended 31 March 2009, which comprise the BT Group plc balance sheet, the related footnotes and the BT Group plc accounting policies. These parent company financial statements have been prepared under the accounting policies set out therein. These parent company financial statements are set out on pages 138 to 141. We have also audited the information in the Report on directors' remuneration that is described as having been audited (the 'Remuneration review').

We have reported separately on the consolidated financial statements of BT Group plc for the year ended 31 March 2009. This separate report is set out on page 77.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Report on directors' remuneration and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of directors' responsibilities.

Our responsibility is to audit the parent company financial statements and the Remuneration review in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the Remuneration review have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Report of the Directors is consistent with the parent company financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and Form 20-F and consider whether it is consistent with the audited parent company financial statements. The other information comprises all information set out in the contents listing on page 1, except for the consolidated financial statements, the Remuneration review and parent company financial statements of BT Group plc. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements and the Remuneration review. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements and the Remuneration review are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements and the Remuneration review.

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2009;
- the parent company financial statements and the Remuneration review have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the parent company financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London, United Kingdom
13 May 2009

FINANCIAL STATEMENTS OF BT GROUP PLC

BT Group plc accounting policies

(i) Accounting basis

As used in these financial statements and associated notes, the term 'company' refers to BT Group plc. These separate financial statements of the company are presented as required by the Companies Act 1985. The separate financial statements have been prepared in accordance with UK Generally Accepted Accounting Principles (UK GAAP).

The financial statements are prepared on a going concern basis and under the historical cost convention as modified by the revaluation of certain financial instruments at fair value.

As permitted by Section 230(3) of the Companies Act 1985, the company's profit and loss account has not been presented.

The BT Group plc consolidated financial statements for the year ended 31 March 2009 contain a consolidated statement of cash flows. Consequently, the company has taken advantage of the exemption in FRS 1, 'Cash Flow Statements', not to present its own cash flow statement.

The BT Group plc consolidated financial statements for the year ended 31 March 2009 contain related party disclosures. Consequently, the company has taken advantage of the exemption in FRS 8, 'Related Party Disclosures', not to disclose transactions with other members of the BT Group.

The BT Group plc consolidated financial statements for the year ended 31 March 2009 contain financial instrument disclosures which comply with FRS 29, 'Financial Instruments: Disclosures'. Consequently, the company is exempted by FRS 29 from providing its disclosure requirements in respect of its financial instruments.

(ii) Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated at cost and reviewed for impairment if there are indicators that the carrying value may not be recoverable.

(iii) Taxation

Full provision is made for deferred taxation on all timing differences which have arisen but not reversed at the balance sheet date. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that there will be sufficient taxable profits from which the underlying timing differences can be deducted. The deferred tax balances are not discounted.

(iv) Dividends

Dividend distributions are recognised as a liability in the year in which the dividends are approved by the company's shareholders. Interim dividends are recognised when they are paid; final dividends when authorised in general meetings by shareholders.

(v) Share capital

Ordinary shares are classified as equity. Repurchased shares of the company are recorded in the balance sheet as treasury shares and presented as a deduction from shareholders' equity at cost.

(vi) Cash

Cash includes cash in hand and bank deposits repayable on demand.

(vii) Share based payments

The company does not incur a charge for share based payments. However, the issuance by the company of share options and awards to employees of its subsidiaries represents additional capital contributions to its subsidiaries. An addition to the company's investment in subsidiaries is recorded with a corresponding increase in equity shareholders' funds. The additional capital contribution is determined based on the fair value of options and awards at the date of grant and is recognised over the vesting period.

Other information

(i) Dividends

The directors are proposing that a final dividend in respect of the year ended 31 March 2009 of 1.1 pence will be paid to shareholders on 7 September 2009, taking the full year proposed dividend in respect of the 2009 financial year to 6.5 pence (2008: 15.8 pence). This dividend is subject to shareholder approval at the Annual General Meeting and therefore the liability of approximately £85m (2008: £805m) has not been included in these financial statements.

(ii) Employees

The executive directors and the Chairman of BT Group plc were the only employees of the company during the 2009 financial year. The costs relating to qualifying services provided to the company's principal subsidiary, British Telecommunications plc, are recharged to that company.

BT Group plc company balance sheet

	2009 £m	2008 £m
Fixed assets		
Investments in subsidiary undertakings[a]	10,168	10,182
Total fixed assets	**10,168**	**10,182**
Current assets		
Debtors[b]	142	996
Cash at bank and in hand	13	16
Total current assets	**155**	**1,012**
Creditors: amounts falling due within one year[c]	65	184
Net current assets	**90**	**828**
Total assets less current liabilities	**10,258**	**11,010**
Capital and reserves[d]		
Called up share capital	408	420
Share premium account	62	62
Capital redemption reserve	27	15
Treasury shares reserve	(1,109)	(1,843)
Profit and loss account	10,870	12,356
Total equity shareholders' funds	**10,258**	**11,010**

a Throughout 2009, the company held a 100% investment in BT Group Investments Limited, a company registered in England and Wales. The company also held a 91% investment in Net 2S SA at 31 March 2008 (a company which changed its name to BT Services SA on 1 April 2009), which it increased to 98.9% in 2009 before selling the investment within the BT Group to BT France SA on 25 March 2009 for a consideration of £64m and a profit on disposal of £11m. The remaining change to investments in subsidiary undertakings relates to additional capital contributions in respect of share based payments (2009: £31m, 2008: £73m).
b Debtors consists of amounts owed by subsidiary undertakings of £142m (2008: £996m).
c Creditors consists of amounts owed to subsidiary undertakings of £15m (2008: £8m) and other creditors of £50m (2008: £176m).
d Capital and reserves are shown on page 140.

The financial statements of the company on pages 138 to 141 were approved by the board of the directors on 13 May 2009 and were signed on its behalf by

Sir Michael Rake
Chairman

Ian Livingston
Chief Executive

Tony Chanmugam
Group Finance Director

BT Group plc company balance sheet continued

	Share capital[a] £m	Share premium account[b] £m	Capital redemption reserve £m	Treasury reserve[c] £m	Profit and loss account[c,d] £m	Total £m
At 1 April 2007	432	31	2	(884)	10,597	10,178
Profit for the financial year	–	–	–	–	3,497	3,497
Dividends paid	–	–	–	–	(1,241)	(1,241)
Capital contribution in respect of share based payments	–	–	–	–	73	73
Net purchase of treasury shares	–	–	–	(1,529)	–	(1,529)
Cancellation of shares	(13)	–	13	570	(570)	–
Arising on share issues	1	31	–	–	–	32
At 1 April 2008	420	62	15	(1,843)	12,356	11,010
Profit for the financial year	–	–	–	–	502	502
Dividends paid	–	–	–	–	(1,222)	(1,222)
Capital contribution in respect of share based payments	–	–	–	–	31	31
Net purchase of treasury shares	–	–	–	(63)	–	(63)
Cancellation of shares	(12)	–	12	797	(797)	–
At 31 March 2009	**408**	**62**	**27**	**(1,109)**	**10,870**	**10,258**

a The authorised share capital of the company throughout 2009 and 2008 was £13,463m, representing 269,260,253,468 ordinary shares of 5p each. The allotted, called up and fully paid ordinary share capital of the company at 31 March 2009 was £408m (2008: £420m), representing 8,151,227,029 ordinary shares of 5p each (2008: 8,401,227,029). Of the authorised but unissued share capital at 31 March 2009, nil ordinary shares (2008: 21m) were reserved to meet options granted under employee share option schemes.

b The share premium account, representing the premium on allotment of shares, is not available for distribution. The movement in share premium arose, in 2008, from shares issued in consideration for the acquisition of Net 2S SA (a company which changed its name to BT Services SA on 1 April 2009), and from the excess of proceeds received on the exercise of share options versus the cost of treasury shares issued to satisfy those exercises.

c During 2009, the company repurchased 142,608,225 (2008: 539,657,691) of its own shares of 5p each, representing 2% (2008: 6%) of the called-up share capital, for consideration (including transaction costs) of £189m (2008: £1,626m). In addition, 90,626,518 shares (2008: 53,250,144) were issued from treasury to satisfy obligations under employee share schemes and executive share awards at a cost of £126m (2008: £97m), and 250,000,000 treasury shares (2008: 250,000,000) were cancelled at a cost of £797m (2008: £570m). At 31 March 2009, 409,226,885 shares (2008: 607,285,178) with an aggregate nominal value of £20m (2008: £30m) are held as treasury shares at cost.

d The profit for the financial year, dealt with in the profit and loss account of the company and after taking into account dividends from subsidiary undertakings, was £502m (2008: £3,497m). As permitted by Section 230 of the Companies Act 1985, no profit and loss account of the company is presented.

SUBSIDIARY UNDERTAKINGS AND ASSOCIATE

The tables below give brief details of the group's principal[a] operating subsidiaries[b] and associate at 31 March 2009. All subsidiaries are unlisted, unless otherwise stated. No subsidiaries are excluded from the group consolidation.

Subsidiary undertakings	Activity	Group interest in allotted capital[c]	Country of operations[d]
Basilica Computing Limited[e,f]	IT solutions provider	100% ordinary	UK
British Telecommunications plc[e]	Communication related services and products provider	100% ordinary	UK
BT Americas Inc[d,e]	Communication related services, systems integration and products provider	100% common	International
BT Australasia Pty Limited[e]	Communication related services and products provider	100% ordinary 100% preference	Australia
BT Centre Nominee 2 Limited[e]	Property holding company	100% ordinary	UK
BT Communications Ireland Limited[e]	Telecommunication service provider	100% ordinary	Ireland
BT Conferencing Inc[e]	Audio, video and web collaboration services provider	100% common	USA
BT Conferencing Video Inc[g]	Audio, video and web collaboration services provider	100% common	USA
BT Convergent Solutions Limited[e]	Communications related services and products provider	100% ordinary	UK
BT ESPANA, Compania de Servicios Globales de Telecommunicaciones, SA[e]	Communication related services and products provider	100% ordinary	Spain
BT Fleet Limited[e]	Fleet management company	100% ordinary	UK
BT France SA[e]	Communications related services, systems integration and products provider	100% ordinary	France
BT Frontline Pte Ltd[e,h]	Communications related services and products provider	100% ordinary	Singapore
BT (Germany) GmbH & Co oHG[e]	Communications related services and products provider	100% ordinary	Germany
BT Global Communications India Private Limited[e]	Communications related services	100% ordinary	India
BT Global Services Limited[e]	International telecommunication network systems provider	100% ordinary	UK
BT Holdings Limited[e]	Investment holding company	100% ordinary	UK
BT Hong Kong Limited[e]	Communication related services and products provider	100% ordinary 100% preference	Hong Kong
BT Infrastructures Critiques[e,i]	IT systems and network provider	100% ordinary	France
BT INS Inc[e]	Information telecommunication consulting and software solutions provider	100% common	USA
BT Italia SpA[e]	Communication related services and products provider	97.3% ordinary	Italy
BT Limited[e]	International telecommunication network systems provider	100% ordinary	International
BT Nederland NV[e]	Communication related services and products provider	100% ordinary	Netherlands
BT Payment Services Limited[e]	Payment services provider	100% ordinary	UK
BT Professional Services Nederland BV[e]	Systems integration and application development	100% ordinary	Netherlands
BT Services SA[e,i]	Technology consulting and engineering services	98.9% ordinary	France
BT Singapore Pte Ltd[e]	Communications related services and products provider	100% ordinary	Singapore
BT US Investments Limited[b,e]	Investment holding company	100% ordinary	Jersey
Communications Global Network Services Limited[d,e]	Communication related services and products provider	100% ordinary	International
Communications Networking Services (UK)[e]	Communication related services and products provider	100% ordinary	UK
dabs.com plc[e]	Technology equipment retailer	100% ordinary	UK
Infonet Services Corporation[e]	Global managed network service provider	100% common	USA
Infonet USA Corporation[e]	Global managed network service provider	100% common	USA
Radianz Americas Inc[e]	Global managed network service provider	100% preference 100% common	USA

[a] The group comprises a large number of entities and it is not practical to include all of them in this list. The list therefore includes only those entities that have a significant impact on the revenue, profit or assets of the group. A full list of subsidiaries, joint ventures and associates will be annexed to the company's next annual return filed with the Registrar of Companies.
[b] The principal operating subsidiaries (listed above) have a reporting date of 31 March, except for BT US Investments Limited which changed its reporting date to 31 October in order to meet its corporate objectives.
[c] The proportion of voting rights held corresponds to the aggregate interest percentage held by the holding company and subsidiary undertakings.
[d] All overseas undertakings are incorporated in their country of operations. Subsidiary undertakings operating internationally are all incorporated in England and Wales, except BT Americas Inc and Communications Global Network Services Limited which are incorporated in the USA and Bermuda respectively.
[e] Held through intermediate holding company.
[f] On 1 April 2009, Basilica Computing Limited sold its business and net assets to BT Lynx Limited. BT Lynx Limited changed its name to BT Engage Limited on 1 April 2009.
[g] In June 2008, Wire One Communications Inc changed its name to BT Conferencing Video Inc.
[h] In April 2008, Frontline Technologies Corporation Limited changed its name to BT Frontline Pte Ltd.
[i] On 1 April 2009, BT Infrastructures Critiques sold its business and net assets to Net2S SA. Net2S SA changed its name to BT Services SA on 1 April 2009.

Associate	Activity	Share capital		Country of operations[k]
		Issued[j]	Percentage owned[l]	
Tech Mahindra Limited	IT systems integrator and transformation consultancy provider	121,733,634	34.5%	India

[j] Issued share capital comprises ordinary or common shares, unless otherwise stated.
[k] Incorporated in the country of operations.
[l] Held through an intermediate holding company.

QUARTERLY ANALYSIS OF REVENUE AND PROFIT

Year ended 31 March 2009 Quarters	Unaudited 1st £m	2nd £m	3rd £m	4th £m	Total £m
Revenue	5,177	5,303	5,437	5,473	**21,390**
Other operating income	90	107	71	71	**339**
Operating costs	(4,625)	(4,740)	(5,264)	(6,689)	**(21,318)**
Operating profit (loss)	642	670	244	(1,145)	**411**
Net finance expense	(130)	(159)	(180)	(151)	**(620)**
Share of post tax profits of associates and joint ventures	1	5	52	17	**75**
(Loss) profit before taxation	513	516	116	(1,279)	**(134)**
Taxation	(115)	(116)	(19)	303	**53**
(Loss) profit for the period	398	400	97	(976)	**(81)**
Basic (loss) earnings per share	5.1p	5.2p	1.3p	(12.6)p	**(1.1)p**
Diluted (loss) earnings per share	5.1p	5.2p	1.3p	(12.6)p	**(1.1)p**
Profit (loss) before specific items and taxation	540	554	80	(936)	**238**
Basic earnings (loss) per share before specific items	5.4p	5.6p	0.8p	(8.5)p	**3.2p**
Adjusted basic earnings per share[a]	5.4p	5.6p	3.9p	3.6p	**18.4p**
Diluted earnings (loss) per share before specific items	5.3p	5.5p	0.8p	(8.5)p	**3.2p**

[a] Adjusted results refer to the amounts before contract and financial review charges recorded within BT Global Services and specific items.

Year ended 31 March 2008 Quarters	Unaudited 1st £m	2nd £m	3rd £m	4th £m	Total £m
Revenue	5,033	5,095	5,154	5,422	**20,704**
Other operating income	66	73	74	136	**349**
Operating costs	(4,441)	(4,647)	(4,646)	(4,963)	**(18,697)**
Operating profit	658	521	582	595	**2,356**
Net finance expense	(55)	(92)	(134)	(97)	**(378)**
Share of post tax losses of associates and joint ventures	(3)	(3)	(2)	(3)	**(11)**
Profit (loss) on disposal of associate	–	9	1	(1)	**9**
Profit before taxation	600	435	447	494	**1,976**
Taxation	8	(96)	(82)	(68)	**(238)**
Profit for the period	608	339	365	426	**1,738**
Basic earnings per share	7.4p	4.2p	4.5p	5.4p	**21.5p**
Diluted earnings per share	7.2p	4.1p	4.4p	5.3p	**21.1p**
Profit before specific items and taxation	650	617	581	658	**2,506**
Basic earnings per share before specific items	5.9p	5.7p	5.7p	6.5p	**23.9p**
Diluted earnings per share before specific items	5.8p	5.6p	5.6p	6.4p	**23.4p**

Year ended 31 March 2007 Quarters	Unaudited 1st £m	2nd £m	3rd £m	4th £m	Total £m
Revenue	4,864	4,941	5,126	5,292	**20,223**
Other operating income	50	52	55	76	**233**
Operating costs	(4,255)	(4,334)	(4,626)	(4,700)	**(17,915)**
Operating profit	659	659	555	668	**2,541**
Net finance (expense) income	(46)	(55)	77	(70)	**(94)**
Share of post tax profits of associates and joint ventures	2	5	7	1	**15**
Profit on disposal of associate	–	20	–	2	**22**
Profit before taxation	615	629	639	601	**2,484**
Taxation	(151)	(154)	819	(146)	**368**
Profit for the period	464	475	1,458	455	**2,852**
Basic earnings per share	5.6p	5.7p	17.6p	5.5p	**34.4p**
Diluted earnings per share	5.5p	5.6p	17.1p	5.3p	**33.6p**
Profit before specific items and taxation	615	632	616	632	**2,495**
Basic earnings per share before specific items	5.6p	5.7p	5.6p	5.8p	**22.7p**
Diluted earnings per share before specific items	5.5p	5.6p	5.5p	5.6p	**22.2p**

SELECTED FINANCIAL DATA

The group's consolidated financial statements for 2009, 2008, 2007, 2006 and 2005 were prepared in accordance with IFRS as issued by the IASB and IFRS as adopted by the EU.

Summary of group income statement

Year ended 31 March	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Revenue	21,390	20,704	20,223	19,514	18,429
Other operating income	339	349	233	227	551
Operating costs	(21,318)	(18,697)	(17,915)	(17,246)	(15,988)
Operating profit					
Before specific items[a]	819	2,895	2,713	2,633	2,693
Specific items[a]	(408)	(539)	(172)	(138)	299
	411	**2,356**	**2,541**	**2,495**	**2,992**
Net finance expense					
Net finance expense before specific items[a]	(620)	(378)	(233)	(472)	(599)
Specific items[a]	–	–	139	–	–
	(620)	**(378)**	**(94)**	**(472)**	**(599)**
Share of post tax profits (losses) of associates and joint ventures					
Before specific items[a]	39	(11)	15	16	(39)
Specific items[a]	36	–	–	–	–
	75	**(11)**	**15**	**16**	**(39)**
Profit on disposal of associates and joint ventures – specific items[a]	–	9	22	1	–
(Loss) profit before taxation and specific items					
Before specific items[a]	238	2,506	2,495	2,177	2,080
Specific items[a]	(372)	(530)	(11)	(137)	274
	(134)	**1,976**	**2,484**	**2,040**	**2,354**
Taxation					
Before specific items[a]	10	(581)	(611)	(533)	(541)
Specific items[a]	43	343	979	41	16
	53	**(238)**	**368**	**(492)**	**(525)**
(Loss) profit for the year					
Before specific items[a]	248	1,925	1,884	1,644	1,539
Specific items[a]	(329)	(187)	968	(96)	290
	(81)	**1,738**	**2,852**	**1,548**	**1,829**

Year ended 31 March	2009	2008	2007	2006	2005
Average number of shares used in basic earnings per share (millions)	7,724	8,066	8,293	8,422	8,524
Average number of shares used in diluted earnings per share (millions)	7,771	8,223	8,479	8,537	8,581
Basic (loss) earnings per share	(1.1)p	21.5p	34.4p	18.4p	21.5p
Diluted (loss) earnings per share	(1.1)p	21.1p	33.6p	18.1p	21.3p
Dividends per share[c]	6.5p	15.8p	15.1p	11.9p	10.4p
Dividends per share, cents[b,c]	9.3c	31.4c	29.7c	20.7c	19.5c

[a] A definition of specific items is provided in the accounting policies section on page 79. The directors believe these measures provide a more meaningful analysis of the trading results of the group and are consistent with the way the financial performance is measured by management.
[b] Based on actual dividends paid and/or year end exchange rate on proposed dividends.
[c] Dividends per share represents the dividend proposed in respect of the relevant financial year. Under IFRS, dividends are recognised as a deduction from shareholders' equity when they are paid.

The following table reconciles (loss) profit before taxation to adjusted profit before taxation,[d] an additional non-GAAP measure used in 2009.

	2009	2008	2007	2006	2005
(Loss) profit before taxation	(134)	1,976	2,484	2,040	2,354
Contract and financial review charges	1,639	–	–		
Specific items	372	530	11	137	(274)
Adjusted profit before taxation[d]	1,877	2,506	2,495	2,177	2,080
Adjusted basic earnings per share[d]	18.4p	23.9p	22.7p	19.5p	18.1p
Adjusted diluted earnings per share[d]	18.4p	23.4p	22.2p	19.2p	17.9p

[d] Adjusted results refer to the results before the contract and financial review charges recorded within BT Global Services and specific items and are 'non-GAAP measures' provided in addition to the disclosure requirements defined under IFRS. The rationale for using non-GAAP measures is explained on pages 33, 47 and 48.

Summary of group cash flow statement

Year ended 31 March	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Net cash inflow from operating activities	4,706	5,486	5,210	5,387	5,574
Net cash (outflow) inflow from investing activities	(2,954)	(3,664)	(2,778)	214	(1,843)
Net cash used in financing activities	(1,865)	(1,430)	(2,898)	(5,278)	(3,529)
Effect of exchange rate changes on cash and cash equivalents	54	25	(35)	–	–
Net (decrease) increase in cash and cash equivalents	**(59)**	**417**	**(501)**	**323**	**202**
Cash and cash equivalents at the start of the year	1,174	757	1,258	935	733
Cash and cash equivalents at the end of the year	**1,115**	**1,174**	**757**	**1,258**	**935**

Summary of group balance sheet

At 31 March	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Intangible assets	3,788	3,355	2,584	1,908	1,379
Property, plant and equipment	15,405	15,307	14,997	15,222	15,266
Retirement benefit asset	–	2,887	–	–	–
Other non current assets	4,068	1,280	759	1,153	1,567
	23,261	**22,829**	**18,340**	**18,283**	**18,212**
Current assets less current liabilities	(3,339)	(3,181)	(3,757)	(3,063)	(2,783)
Total assets less current liabilities	**19,922**	**19,648**	**14,583**	**15,220**	**15,429**
Non current loans and other borrowings	(12,365)	(9,818)	(6,387)	(7,995)	(7,744)
Retirement benefit obligations	(3,973)	–	(389)	(2,547)	(4,807)
Other non current liabilities	(3,415)	(4,398)	(3,535)	(3,071)	(2,783)
Total assets less liabilities	**169**	**5,432**	**4,272**	**1,607**	**95**
Called up share capital	408	420	432	432	432
Share premium account	62	62	31	7	3
Capital redemption reserve	27	15	2	2	2
Other reserves	1,301	(527)	88	364	762
Retained (loss) earnings	(1,656)	5,439	3,685	750	(1,154)
Total parent shareholders' equity	**142**	**5,409**	**4,238**	**1,555**	**45**
Minority interests	27	23	34	52	50
Total equity	**169**	**5,432**	**4,272**	**1,607**	**95**

FINANCIAL STATISTICS

	2009	2008	2007	2006	2005
Financial ratios					
Adjusted basic earnings per share – pence[a]	18.4	23.9	22.7	19.5	18.1
Reported basic (loss) earnings per share – pence	(1.1)	21.5	34.4	18.4	21.5
Adjusted return on capital employed (unaudited)[a, b]	15.1	17.7	17.6	18.1	18.2
Reported return on capital employed (unaudited)[b]	2.9	14.4	16.5	17.1	20.0
Adjusted interest cover before net pension finance income[c] – times (unaudited)	2.6	3.6	4.2	3.6	3.4
Reported interest cover[d] – times (unaudited)[d]	0.7	6.2	27.0	5.3	5.0

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Expenditure on research and development					
Research and development expense	590	532	378	326	257
Amortisation of internally developed computer software	431	325	314	161	95
Total	**1,021**	**857**	**692**	**487**	**352**

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Expenditure on property, plant and equipment and software					
Plant and equipment					
Transmission equipment	1,067	1,117	1,209	1,429	1,488
Exchange equipment	44	83	118	80	143
Other network equipment	899	1,060	854	727	648
Computers and office equipment	140	181	149	138	187
Motor vehicles and other	912	876	877	715	474
Land and buildings	23	33	61	68	64
	3,085	**3,350**	**3,268**	**3,157**	**3,004**
Increase (decrease) in engineering stores	3	(11)	(21)	(15)	7
Total expenditure on property, plant and equipment	**3,088**	**3,339**	**3,247**	**3,142**	**3,011**
(Decrease) increase in payables	(6)	(24)	51	(202)	45
Cash outflow on purchase of property, plant and equipment and software	**3,082**	**3,315**	**3,298**	**2,940**	**3,056**

a Adjusted results refer to the results excluding the contract and financial review charges recorded within BT Global Services and specific items.
b The ratio is based on profit before taxation and net finance expense to average capital employed. Capital employed is represented by total assets less current liabilities (excluding corporation tax, current borrowings, derivative financial liabilities and finance lease creditors) less deferred tax assets, cash and cash equivalents, derivative financial assets and investments.
c The number of times net finance expense before net pension finance income is covered by adjusted operating profit.
d The number of times net finance expense is covered by total operating profit.

OPERATIONAL STATISTICS

All values ('000) unless otherwise stated.

As at 31 March	2009	2008	2007	2006	2005
		Unaudited			
BT Global Services					
Networked IT services sales order value (£m)[a]	5,473	4,985	5,209	5,391	7,161
Other order intake (£m)[a]	2,571	3,040	4,090	3,607	2,465
Total sales order value (£m)[a]	**8,044**	**8,025**	**9,299**	**8,998**	**9,626**
BT Retail					
Broadband lines (UK)	4,757	4,402	3,659	2,668	1,780
Broadband lines (UK): BT's retail share of installed base	34%	35%	34%	33%	35%
Exchange lines (UK)	20,665	22,543	23,900	25,709	27,878
BT Vision installed base	423	214	–	–	–
Average annual revenue per consumer household user (ARPU)[b] (£)	287	274	262	251	254
% consumer contracted revenues[c]	71%	70%	68%	67%	64%
BT Wholesale					
Broadband lines (UK) (Non-BT ISPs)	3,305	3,983	5,168	5,092	3,243
Openreach					
Full and shared unbundled local loops	5,749	4,300	1,910	356	41
Wholesale line rental (lines)	5,647	4,666	4,227	2,874	1,026
BT Group					
Total employees (000)	107.0	111.9	106.2	104.4	102.1
Broadband lines (UK):					
BT Retail	4,757	4,402	3,659	2,668	1,780
BT Wholesale	3,305	3,983	5,168	5,092	3,243
Openreach	5,749	4,300	1,910	356	41
Total broadband lines	**13,811**	**12,685**	**10,737**	**8,116**	**5,064**
Exchange lines (UK):					
BT Retail	20,665	22,543	23,900	25,709	27,878
Openreach	5,647	4,666	4,227	2,874	1,026
Total exchange lines	**26,312**	**27,209**	**28,127**	**28,583**	**28,904**

a Rolling 12 month order intake.
b Rolling 12 month consumer revenue, less mobile POLOs, divided by average number of primary lines.
c Includes line rental, broadband, select services and packages.